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The Mortgage Banker

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MORTGAGE BANKERS ASSOCIATION OF AMERICA — MBA

in this issue ------

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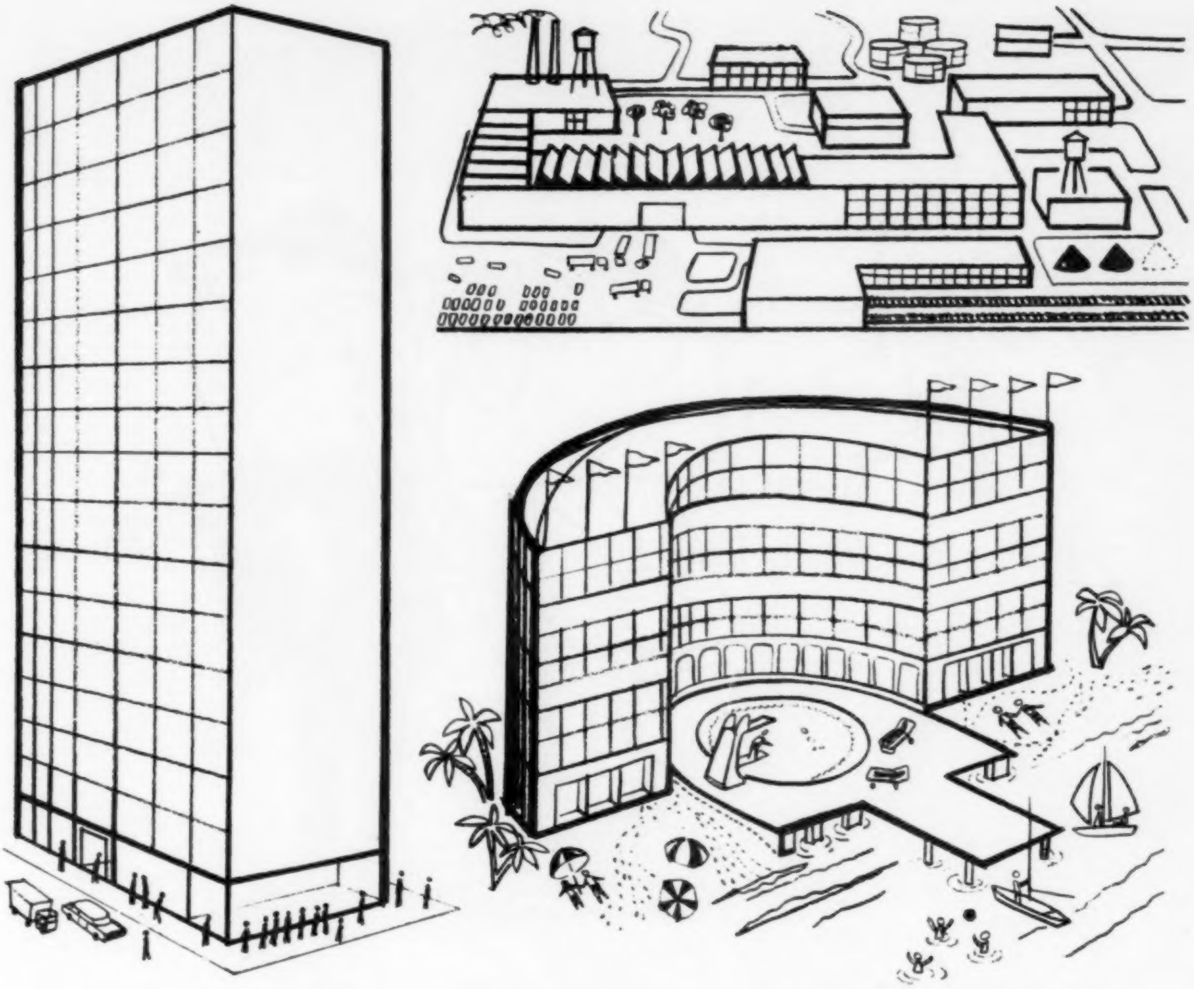

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MBA CALENDAR

September 11-14, National Electronics Convention, Statler Hilton Hotel, Detroit

September 15, Sheraton Chicago Hotel, Chicago, Mortgage Seminar for Trusteed Funds

October 30-November 2, 48th Annual Convention, Americana Hotel, Miami Beach, Florida

December 10-16, Second Annual Case-Study Seminar on Income Property Financing, Michigan State University, East Lansing, Mich.

President Tharpe's Calendar

September 27, Long Island Real Estate Board, Garden City, Long Island.

October 13, The Savings Banks' Association of Connecticut, Annual Convention, Montreal.

October 20, Mortgage Division Kansas City, Mo. Real Estate Board, Kansas City

The Mortgage Banker

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MORTGAGE BANKERS ASSOCIATION OF AMERICA

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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

Volume 21 — **September, 1961** — **Number 12**

Contents

▶ **CONVENTION NOTE:** If there is any confusion in any member's mind about what the Internal Revenue Service thinks about convention expenses and what can be deducted and what can't, the answer appears to be that nothing has changed. The fact that the 1961 MBA meeting is in Miami Beach doesn't change anything either. Recently Florida hotels complained to Senator Smathers of Florida that some organizations were passing up the State for fear its resort identification would prompt the IRS to disallow expense deductions. The commissioner said that such was not the case, and took occasion to say that "expenses which are clearly shown to be for business purposes will continue to be allowable under existing law." It has been, of course, IRS's policy to reject deductions for side trips by conventioneers and expenses for wives unless they perform some useful function, such as "taking notes during meetings or acting as hostesses at business promoting receptions."

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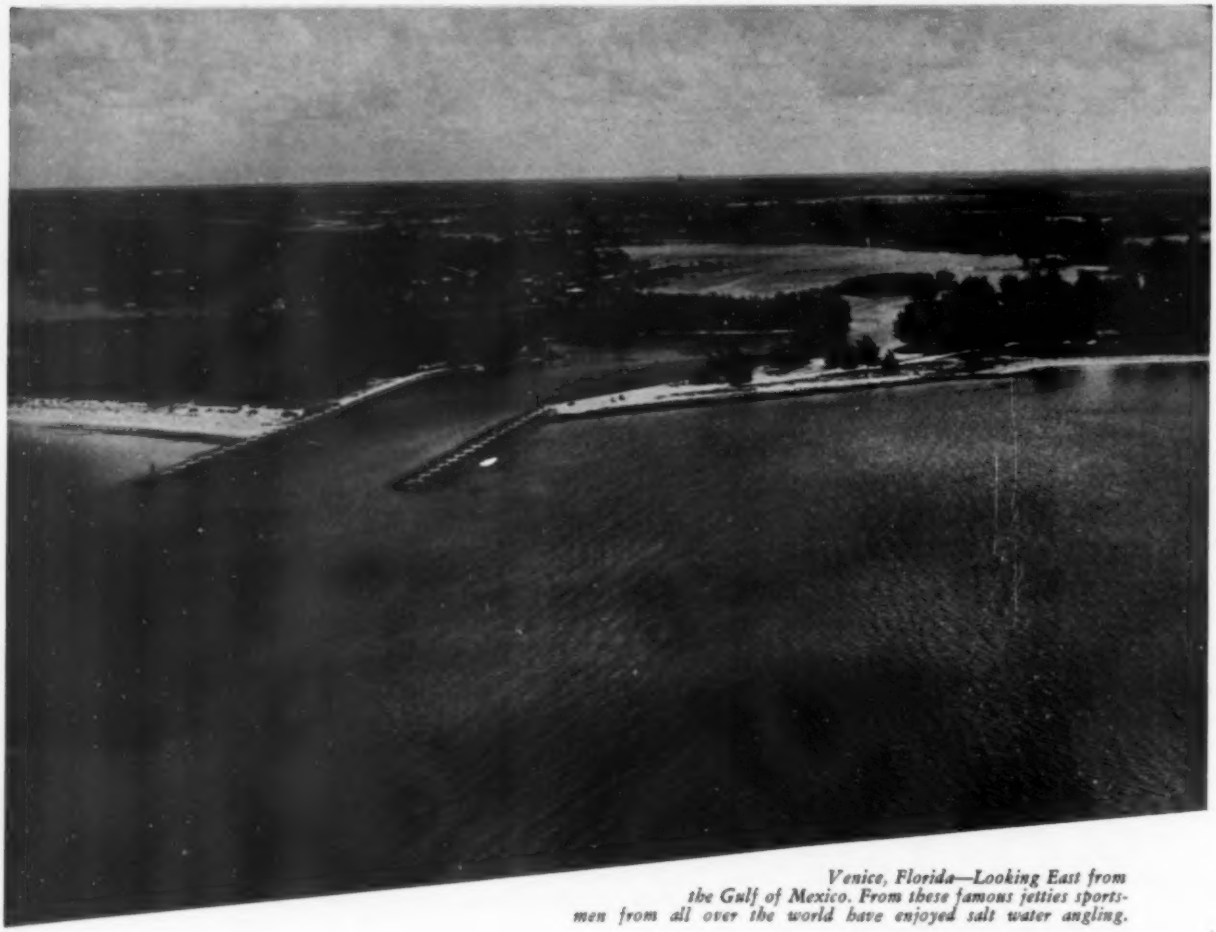

Venice, Florida—Looking East from the Gulf of Mexico. From these famous jetties sportsmen from all over the world have enjoyed salt water angling.

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BRIEFLY TOLD

Residential Mortgage Loans the Largest Investment Volume Since War's End

Residential mortgage loans have provided the largest single investment outlet in the nation's capital markets since World War II, a report of the National Bureau of Economic Research finds. In the first postwar decade alone, nearly $90 billion of net new funds flowed into residential mortgages, compared with $66 billion for corporate securities, $30 billion for state and local government bonds, and $20 billion for non-residential mortgages. Residential mortgage loans continued to dominate the capital market in recent years. Housing credit has not only been the largest but also the most volatile sector of the postwar capital market.

Saul Klaman

The Postwar Residential Mortgage Market, by Saul B. Klaman, is the first comprehensive investigation of postwar housing credit developments. The study also describes and evaluates the unique institutional arrangements characteristic of the residential mortgage market and the investment policies of the main mortgage credit suppliers.

Klaman is director of research of the National Association of Mutual Savings Banks, was formerly with the Federal Reserve Board in Washington and is the author of the principal literature in recent years about mortgage lending. This new book, "The Postwar Residential Mortgage Market," is published by Princeton University Press, Princeton, N. J., at $8.50 and can be highly recommended to anyone in mortgage origination or mortgage investment. It is one of a series of reports about postwar capital market developments and was aided by a grant to the National Bureau from the Life Insurance Association of America. Its publication was aided by a special grant from the Research and Educational Trust Fund of the Mortgage Bankers Association of America.

Klaman reveals that in the immediate postwar years the interplay of private market and governmental forces resulted in a 5-year period of nearly unrestrained mortgage credit expansion not since equaled. The turning point in the postwar mortgage market occurred in March 1951 with the Federal Reserve-Treasury Accord, resulting in the withdrawal of Federal Reserve support of the government securities market. Subsequent years were marked by alternating forces of restraint and expansion—both private and public—which led to considerable instability in residential mortgage markets.

The renewed effectiveness of monetary policy, coupled with relative inflexibility of mortgage interest rates, were the main factors influencing the availability of residential mortgage credit in the years after 1951. The study indicates that the ebb and flow of residential mortgage funds coincided with narrowing and increasing spreads between interest rates on FHA and VA loans, established by law or regulation, and flexible yields on other capital market securities determined by competitive forces. Conventional mortgage loans with market-determined interest rates were in relatively stable supply during the postwar years.

New data show that mortgage rates have moved more sluggishly and in a narrower range than other long-term yields throughout the postwar years. These findings indicate that the re-

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cent slow downward movement of mortgage interest rates relative to other capital market yields is not an unusual development. The behavior of mortgages interest rates, Klaman concludes, reflects certain special characteristics of mortgage and housing markets and the mortgage contract. The result is that "fairly substantial and prolonged changes in financial conditions are required to bring about changes in mortgage interest rates."

The four main types of institutional investors—savings and loans, mutual savings banks, life insurance companies, and commercial banks—accounted for nearly nine-tenths of the net flow of residential credit in the first postwar decade, and their policies varied widely.

These lenders, Klaman observes, operated in an institutional setting unique in the capital markets. The commitment technique for acquiring mortgages, the long building process, and legal complexities result in unusually long intervals between decisions to invest and disbursements of funds. Among postwar innovations in mortgage techniques were the "standby commitment" and "mortgage warehousing," evolved mainly to help overcome shortages of long-term funds and to meet changing investor needs. Warehousing credit, used for financing mortgage inventories, is especially important to mortgage companies, but is used on occasion by life insurance companies and other mortgage investors.

Klaman estimates that secondary transactions in residential mortgages amounted to less than a tenth of primary transactions in the first postwar decade. The primary market itself underwent considerable change in the postwar years, and "the traditional individual transactions between mortgagor and lender was replaced by mass mortgage transactions between builders and investors on behalf of numerous unknown house buyers and ultimate mortgagors."

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Where Are Interest Rates Headed? Few Agree on a Definite Trend

Where are mortgage interest rates going? If the Administration has anything to do with it, they are going down — and Washington has been hard at work on the proposition almost since the day it took over. Could they be headed up? Few think so even though there is a stiffening trend now and it could move further. In fact, the best opinion is that they are likely to remain steady and that's exactly the conclusion that ABA's Mortgage Finance Committee survey shows.

Eighty-seven per cent of the bankers participating believe mortgage rates will remain steady over the next few months. Only 12 per cent believe rates may decline, and a negligible number think a higher rate may prevail.

The study shows that on May 15 commitments for loans were 31 per cent higher than on the same date a year earlier, "indicating a more than seasonal rise in building activity." Permanent long term mortgage loan commitments were 11 per cent higher than on May 15, 1960.

The study shows that foreclosures of FHAs and VAs totaling .6 per thousand were 85 per cent greater than for conventional mortgages at .34 during April. The highest number of foreclosures was in the Northeast area, while both delinquencies and foreclosures were generally lower in the West.

In the next few months mortgages will be easier to get and the costs lower than in the early part of this year, the NAREB mortgage report says.

"The outlook for the second half of 1961 should be an excellent one both for the buyer and seller, and for the borrower and lender," the report says of conventional mortgages. "Money will be at its highest available point and interest rates at their lowest level, as is usually the case just after the trough of a business cycle has been reached. Interest rates, however, will be firming up very quickly. . . . "

With respect to FHAs, the report finds the outlook "extraordinarily good." Funds for such loans will continue to be ample with respect to both new and existing homes and the discounts are not expected to change greatly from their present average of 3 to 4 per cent.

Now generally available in moderate supply, money for VA loans is becoming more widely available and there will probably be a "small decrease" in the discounts charged on such loans in the very near future. These discounts now range between 3 to 4½ points on loans on new houses and from 3½ to 5 points on those for existing residences.

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The NAREB report goes on to say:

▶ Conventionals: Personal savings have been going up ever since the beginning of the recession and much of this money has been made available for mortgages since their yields are now more attractive than those on industrial stocks or high-grade bonds. Moreover, because of the caution apparent in the attitudes of many home buyers, competition in making mortgages is developing with better terms offered to buyers.

For new houses the usual range of mortgage interest rates is 5¾ per cent to 6 per cent with the 5¾ per cent rate being the most prevalent. For existing homes in good neighborhoods, the most common range is between 5¾ per cent to 6 per cent, with both rates being equally prevalent. Rates on loans for existing houses in neglected neighborhoods are generally from a quarter to half a point higher. As a rule, rates are lowest in the Northeast, and highest in the West.

▶ FHAs: The report finds the discount range on FHAs 5¼ per cent loans from 3 to 4 per cent. "Compared to a year ago, and in spite of the fact that the interest rate on FHA loans was lowered twice from 5¾ per cent to the current 5¼ per cent, discounts are approximately at the same level," the report points out, "thus reflecting the general availability and relative cheapness of mortgage money."

▶ VAs: "One of the major effects of the recent cut in the FHA rate and its consequent equalization with the VA rate, will undoubtedly be an increase in the use of the VA-guaranteed program," the report says.

The most prevalent range of prices for loans with a maturity of 25 years or less is 95½ to 97, and 95-96½ for existing homes. For loans with a maturity of 30 years, the discount is about half a point higher.

THE POSTWAR RESIDENTIAL MORTGAGE MARKET

By Saul B. Klaman. This first complete, statistically based study of post-World War II residential mortgages provides the most consistent and detailed analyses available of holdings and flows. Presentation on a quarterly basis permits significant cyclical analysis. Thorough discussion of problems raised by institutional arrangements and market techniques. Published for the National Bureau of Economic Research. 366 pages.

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Real Estate Trust Has Been Slow Starter But Some Large Ones in the Works

The present period is a time of many innovations, novel plans and proposals embodying new ideas in financing and credit. Some die a-borning, others fail to live up to the hopes and aspirations set for them. Whether the real estate investment trust will prove to be one of these it is too early to say, but as of now less than twenty have been formed. The predictions had been last year that, with this new tax treatment permitting the same advantages which now accrue to a mutual securities fund, there would be a rush to organize such trusts, but this has not proved the case.

The first big fund was organized by the Greenfield real estate interests in Philadelphia, with a public offering aggregating $10,000,000. Other funds range from a modest $695,000 to one proposed of $50,000,000. One of the first funds to take advantage of the law was the Real Estate Investment Trust of America, which has been in business for more than a generation and represents business trusts which date back to the 19th century. The first fund to invest entirely in mortgages is a Boston operation with a $15,000,000 offering contemplated.

The big Denver firm of Van Schaack & Company is one of the first mortgage banking firms to organize a trust. It's an $8 million project contemplating ownership of office buildings, shopping centers, apartments and other income producing properties and called the Denver Real Estate Investment Association. Denver investment bankers underwrote a public offering of 800,000 shares at $10 a share.

While the real estate investment trust idea has not taken hold as was widely anticipated, other developments which were anticipated in the beginning have not materialized — namely, the idea that hotel chains, manufacturing companies, etc. could qualify as trusts and thus reap the tax advantages. There was a lot of planning along these lines late last year, but it has all vanished now with the clear implication that approval would not be secured.

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Despite Stock Boom Fixed-Dollar Investments Preferred by Savers

With all the talk about the new look in ownership of equities which has developed in recent years, the American people are continuing to rely on fixed-dollar types of savings and investments.

This stands out clearly from the facts and figures on the continued growth and widespread distribution of ownership of the traditional forms of personal thrift and protection—life insurance, pension and retirement funds, savings accounts, and the various other forms of fixed-dollar savings and investments.

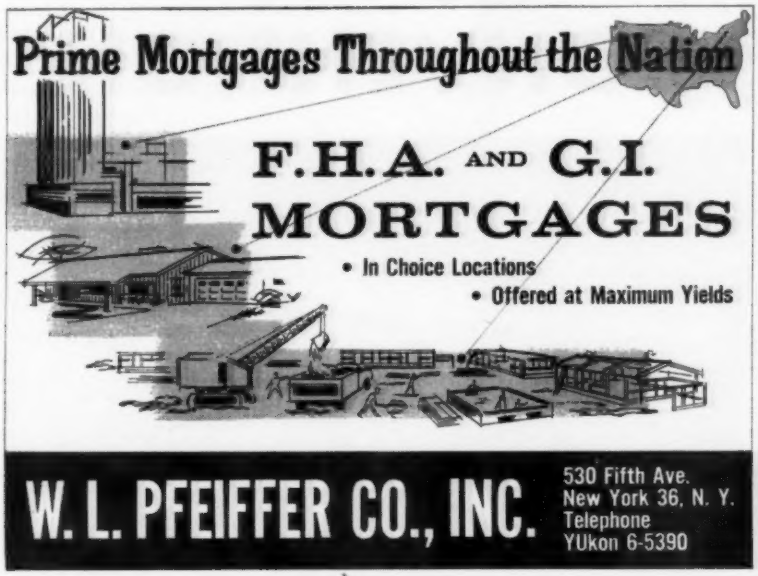
This is significant in view of impressions of shifts in popular preference that may have been given by the growth in stock ownership in recent years and the recurrent waves of speculation in securities markets.

The extent of the public's reliance on fixed-dollar assets is evident both in data on the annual flow of personal income into thrift and investment mediums and in the statistics on the composition of the people's accumulated financial resources. It is likewise manifest in the figures on life insurance protection and its persistent growth over the years. Last year saw a new high of more than $74 billion in new life insurance purchases, and the people's total protection in force in U. S. legal reserve companies now exceeds $600 billion.

Figures from government and private sources show that fixed-dollar saving by individuals has added up to $20 billion or more a year since the mid-Fifties. This was in reserves of life insurance companies, assets of private pension and retirement funds, savings accounts including savings and loan associations and credit unions, and government securities comprising U. S. savings bonds and federal, state and local issues. The annual total here set a record of more than $30 billion in 1959, swelled by the public's rush to buy the high-yielding U. S. Treasury notes offered in that year. The comparable figure in 1950 was only about $7 billion.

As against this, the figures show that the net annual flow of funds of individuals into stocks of corporations and investment fund shares averaged little more than a billion dollars a year over the past decade. The peak figure in the period was less than $2 billion in 1951, and last year there was actually a small net decline.

As to the aggregates of individual financial resources and their composition, the figures show that the public at the end of last year had accumulated a total of more than $440 billion in the fixed-dollar asset classifications of life insurance reserves, private pen-



sion fund assets, various types of savings accounts, Government securities, and corporate bonds and notes. The comparable figure for combined individual holdings of corporate common and preferred stocks and investment company shares was $367 billion on that date, the SEC estimates. Beyond the difference of some $70 billion in favor of the fixed-dollar asset classification, there is the added basic distinction between the two in the fact that the figure for stock holdings is a market valuation and therefore subject to the ebb and flow of speculative tides.

Data made public recently by the New York Stock Exchange show that the number of stockholders in publicly-traded corporations and in investment funds added up to an estimated 12½ million in 1959. This number was half again as great as in the previous survey in the mid-Fifties, but it still represented a minor fraction of the population.

By contrast the number of life insurance policyholders in legal reserve companies is currently 118 million, or practically two out of every three persons in the population. There are more than 80 million savings accounts, and an estimated 20 million workers are covered under insured and noninsured pension and retirement programs. These and other savings ownership figures provide further evidence of the extent that the predominant majority of Americans is relying on fixed-dollar savings and investments to help meet the economic impact of death, disability and retirement.

Beyond their fundamental role in the everyday lives of the people is the essential economic function of fixed-dollar savings in our society. For it is such savings, channeled into the capital markets by the life insurance companies and other thrift institutions, that are the source of a large part of the credit and investment funds that America needs to grow and to meet the challenge of the times. Informed and intelligent risk-taking has always played an important role in our economy, but it is no substitute for savings needed for both public and private investments to promote the advancement of our human as well as our material resources.

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Associate Members:

ALABAMA, *Montgomery:* Cobbs, Allen & Hall Mortgage Company, Inc., H. Dwight Wilson, manager.

CALIFORNIA, *Los Angeles:* Advance Mortgage Corporation, Ira J. Morrison, assistant vice president.

FLORIDA, *St. Petersburg:* Law Office of Martin J. Roess, Winfield E. Wight, Jr., associate attorney; *Tampa:* Commander Mortgage Company, Ernest J. Rourke, vice president and manager.

GEORGIA, *Athens:* Tharpe & Brooks Inc., Robert E. Hein, manager; *Decatur:* L. Jack Swertfeger, Jr.

IDAHO, *Boise:* Mortgage-Insurance Corporation, Rolland H. Smith, president.

INDIANA, *Hammond:* Great Lakes Mortgage Corporation, Robert Strawbridge, vice president.

MISSOURI, *Clayton:* City-Wide Mortgage Company, Richard M. Arnold, Manager.

OHIO, *Cincinnati:* Panohio Mortgages, Inc., James L. Stevenson, vice president; *Cleveland:* Citizens Mortgage Corporation, David K. Lewis, assistant vice president; *Dayton:* Panohio Mortgages, Inc., Marvin N. Wagner, vice president; *Toledo:* Spengler, Nathanson, Heyman, McCarthy & Durfee, B. B. Durfee, lawyer.

VIRGINIA, *Norfolk:* United Mortgagee Servicing Corporation, David F. Duggan, branch manager.

WISCONSIN, *Milwaukee:* Frederick Hersh.

POOL OF MORTGAGES FOR PENSION FUND PURCHASE

The National City Bank of Cleveland recently put into operation a pooled mortgage fund to permit pension and profit sharing trusts to invest in mortgages. It is one of the few such funds in the country and will concentrate on FHAs and VAs. The loans are held in a single fund and participating trusts acquire units of that fund. The units are valued monthly and can be acquired or withdrawn on any monthly valuation date. Participations in the fund are limited to those pension and profit sharing trusts that have been approved by the Internal Revenue Service. The bank's mortgage fund was motivated by its experience with two previous such trusts, one for equities and the other for corporate bonds.

Mortgages have so far been a relatively minor factor in pension fund investments. Latest figures released by SEC show that out of corporate pension funds amounting to \$32 billion at the end of 1960, only 2.6 per cent was invested in mortgages. However, mortgages showed an increase of 37 per cent during 1960 indicating this field of investment is now attracting interest.

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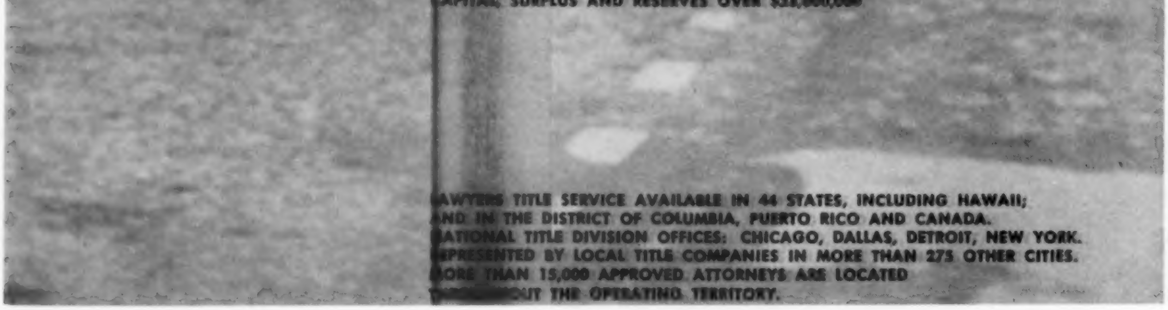


THE REALLY BIG U. S. LAG

No, not in space achievements, not in defense, not in solving the challenges of automation—it isn't any of these things alone that the really big U. S. lagging-behind can be found. It's productivity; and except for the farm section of the U. S. economy, productivity in this country has been falling behind, or increasing by very little for the past ten years, or, stated more accurately, for 15 years. Productivity is the sum of four things—capital investment, technological innovations, upgrading of labor and management. Haven't there been literally many sensational achievements in all four sectors? One may say yes, but when the facts go under the microscope, as Dr. Drucker does with them here, it's not the picture the average person has of traditional U. S. growth. Hopeless? Not at all, "we are still ahead but . . . it is not something that more government spending can cure . . . it essentially is a reeducation of attitude, a realignment of priorities . . ."

THE country has been made well aware of the international balance of payments problem; it understood the problem of the recession and the suspicion that there was a substantial amount of chronic unemployment in it; and it is concerned as to our growth rate as an economy. Each of these are very big and very important problems. But they are essentially symptoms of one underlying, much more serious, much more important phenomenon, namely: that productivity in the non-farm sector of the economy, which means in 90 per cent of it, during the last 10 years has essentially not increased in this country, or increased very little.

This is partly concealed by the fact that the farm sector has done so spectacularly well in increasing productivity—apparently too well for its own good. It is concealed by the fact that when we talk of productivity, we look usually at a few manufacturing industries in which productivity increases seem still to be made, but only if we measure productivity physically, as so many things turned out per hour.

If we measure it economically, as to what the consumer gets for the effort put in, we would find that there has been little improvement. Actually, manufacturing is, today, not the largest single segment — *services* are. In the service areas, the performance has been a very curious one.

The largest productivity increases in our economy are probably in the financial areas, banking and insurance, which contrary to the popular legend of their being stodgy and conservative, have shown amazing agility the last 15 years.

And the poorest performance—bar none in the world—is that of our seaborne transportation, where we pay many times what we used to pay 30 years ago to get half the stuff loaded.

By **DR. PETER F. DRUCKER**

Professor of Management, NYU Graduate School of Business Administration, from one of a series of his lectures at the School

But the overall picture has not been a good one. This is at the bottom of the nation's various problems. We can doctor the symptoms, and probably do a good job with each of them. But we are only going to be confronted by troubles breaking out elsewhere, unless we come to grips with the structural productivity problems.

To an economist, this lagging productivity in the last 15 years is a baffling phenomenon. He has both learned—and teaches—that increased productivity is the result of four factors: capital investment, technological innovation, upgrading of the labor force, and management.

We have had the largest capital investment boom in our history; we have multiplied our expenses for technological innovation many, many times; we have undergone, in the last 15 years, a wholesale shift of the work force from manual labor to knowledge workers.

Yet our productivity has not shown

the results. This means that the first suspect in the productivity story is therefore management. One therefore has to start out with the question, "Are there things one can see in our management that might explain why these other factors haven't brought us the harvest we would have expected from them?"

There are. If we look at management in general, we see first, that for reasons which are perfectly understandable we have been physically rather than economically oriented in our management. First, there was the war, when it didn't matter what things cost as long as we got them out. Then there was one of the very great re-equipment booms in history, particularly abroad, where we were the only economy not destroyed, not damaged even, so that again the accent was on getting this stuff rolling. And we have come to identify productivity with the engineers' concept of progress, which is faster, more complex, more powerful, and more rigid, rather than with the economists' concept which is that productivity is more flexible and more valuable. We need both in balance. But we haven't been in balance. We have gone all the way over on the engineering side of getting it out faster and in larger quantities and with greater rigidity. We have poured enormous amounts of money into mechanization which economically is not, perhaps, tenable except under an assumption which no economist will ever make: that from here on out for the next 20 years what the market will want is this grade of paper, or this grade of steel, or this pattern of china. The economist knows that the day one goes "on stream," the market will want something else.

This is our first lesson. Management is an economic function and not a technical function. It uses technical thinking and technical processes, but is not dedicated to their advancement per se.

Second, we have forgotten that when the economist says productivity is the result of these four factors—capital investment, technological innovation, upgrading of the labor force and management—he implies, "provided they are being concentrated on the most effective areas."

"Concentrated" is the key word. One can question whether we are concentrating or whether we are frittering away these tremendous, powerful levers of improvement.

In one research program we often have 40 or 50 good people trying to do 600 projects. Anyone who has ever done any research management knows that either none of these projects is worth doing, or, that the important ones and the staff are hopelessly mixed in together and that none of them will get done.

Instead of doing the work, there will therefore be endless meetings on what work should be done. A great deal of our capital investment has gone into a kind of dispersed patching. To splinter our resources is perhaps the greatest managerial weakness into which our abundance has lured us. The reason why the Germans or the Japanese or the Italians have shown such tremendous productivity increase in the last few years—much greater than anything behind the Iron Curtain—is perhaps that they had to husband their resources, whereas we had resources in abundance. So they had to make the tough decision: "What comes first?" Which also means, "what do we not do? What do we abandon?"

These decisions are tough and painful. But they are essentially what management is paid for. Management earns its keep through the one crucial risk-taking decision, what to postpone and what to do first? We have escaped in far too many cases by saying, "let's do a little bit of everything." This way one gets nothing done.

I began by castigating management because I think it is always proper to find first the beam in one's own eyes before looking for the mote in other peoples' eyes, let alone for beams in other peoples' eyes. But I think that there are two other areas where we know, again perhaps with hindsight, that we are endangering productivity by our habits and policies.

First, our performance is presumptive evidence that our tax system is doing damage. In analyzing what intelligent, responsible, good managements are doing, one finds one area where the tax system distorts. Everybody who has worked with capital programs for facilities, machinery or equipment, has learned one way or another that one must look upon all money spent on equipment as being cost of capital. Whether it is maintenance or repair or replacement, it is cost of capital. All the formulae we have been developing for capital equipment decisions are simply based on this one insight. When one looks at our tax policy, however, it penalizes this approach to such an extent that it is almost impossible to follow it. The maintenance dollar we spend costs us about between half and two-thirds of what the new equipment dollar costs. We can incur maintenance expense without any restrictions, without anybody ever asking the question, "Was it necessary?" No tax audit we ever heard of has ever questioned maintenance expense, provided the vouchers are there.

But as to capital equipment (and this is particularly true of regulated industries who are very heavy investors) we have imposed depreciation schedules, which not only seriously increase the cost of the dollar but also in many cases put restrictions on how many and what kind of dollars can be spent.

An industrial country which attempts to restrict depreciation by industry, anyway, is insane. The only proper policy is to treat it as a dis-actioning managerial decision and to accept any decision as long as management doesn't write off the same piece of equipment more than once. Accelerated depreciation is fine. But it is a small, and not the most central, part of the problem which lies in the fact that with our present tax rates, the accountants' perfectly rational distinction (for their purposes) between maintenance and capital is being biased in favor, heavily, of keeping on mending and keeping on patching, simply because any dollar we use for that purpose cost us so much less than the dollar for new equipment. Comparable enterprises in different countries, in countries where this rather peculiarly Anglo-American distinction is not applied by the tax authority, such as Japan or Sweden or Germany, where the tax system allows very freely to expense capital and to capitalize maintenance, the same industries have made very different decisions. Industries without any war damage have re-equipped abroad, whereas we have patched and modernized and maintained.

So there is a strong suspicion that

here is a major contributing factor to what is becoming "technical inferiority" in a good many American industries.

Finally, there is a labor relations problem, but it is not wage rates. It is not, perhaps, even wage costs. It is basic concepts. If we want to restore our capacity to improve productivity rapidly, while at the same time be a high-wage and high-employment country (which is the traditional American achievement), we will have to learn to reverse two almost axiomatic rules of labor relations of today:

Rule 1—That a wage increase is not inflationary as long as the productivity in the industry that grants it has risen as fast as the wage rate. No part of the productivity gain is passed on to the consumer. But when you have an international payments problem this is not permissible. The foreign consumer does not greatly care whether we are non-competitive because our wages are too high, or because our profits are too high.

This is particularly pertinent as our foreign trade position is worse than the figures indicate. We have weakened in our capacity to compete at a time when the terms of trade have swung heavily in our favor. We buy, primarily, raw materials, the prices of which have dropped by 50 per cent since 1953. And we sell, primarily, highly machined products, the prices of which have almost doubled since 1953. Today we are selling about two-thirds of the volume we sold in the early fifties but getting a good deal more money for it because prices have risen so fast. And we buy well over twice the raw materials we then bought and pay no more for them.

This is not going to last. We are perhaps, not at the moment when the gap in the terms of trade is at its widest, not very far away from it. And as it begins to close again, as it has always done, we are in danger of seeing a dis-proportionately fast weakening of our foreign trade position and of our foreign payments position. This we can not afford.

The concept of productivity, that it is all right to raise labor costs as long as no more is given to labor than the productivity gain, is therefore suicidal. We have to change the rule.

The second axiom that is wrong is that we look upon the impact of labor costs in terms of the industry itself. But we have to see what is the impact on the economy. A few industries are pace-setters. The impact of a labor cost agreement in one of these industries just goes through the whole economy, which actually multiplies the effect.

And so the second axiom we have to change is that it is all right for a few manufacturing industries to be pace-setters. If we want to have pace-setters, they have to be service industries. This is the bulk of the employment today and the bulk of our labor cost, rather than in the manufacturing industry.

If we want to say that we can increase labor costs proportionate to productivity, then it's got to be proportionate to the productivity of the service areas.

We have to change those two axioms in labor relations and have altogether to accept the fact that the impact of our wage costs and our competitive position in the world, rather than the relationship to physical productivity, is the basic yardstick against which we measure what we can and what we cannot, what we should and what we should not do.

I have pinpointed a few major areas in which a lot of work has to be done. The most important thing probably is, however, not that we realize that we have to do these things. We have to accept what we have been preaching the last 15 years to all and sundry, except to ourselves, that it is the job for all forces in the economy —management, government and labor —to see in the advancement of economic productivity the basic yardstick and goal of economic activity in our country.

We have been preaching this to the Europeans, to the Latin Americans, to the Japanese, to the Indians, preaching to everybody.

And they have listened. And wherever they listened the results were amazing. For once, what we were teaching worked. We now have to learn and do it ourselves. This is essentially a re-arrangement of priorities, a re-arrangement of attitudes, rather than a doing of different things.

The specific crises, the specific problems which the new Administration is talking about and may tackle in one way or another, have to be talked about and tackled, though some of them may perhaps not be quite what this or that expert thinks they are. But the underlying, basic, new fact in the American economy has not been identified by the public, or by the government, or by business, or by labor, and has not yet been accepted. It is: We don't have to worry about the Russian growth rate—all we have to do is keep up our end in the productivity competition with our own kin and friends in the free countries. They are moving much faster than the Russians, most of them.

None of the basic problems in economic policy, whether domestic or international, can be tackled by us unless we have the foundation of an economy that again leads in productivity increase, or at least holds its own with whoever does the best job outside.

This is the foundation. If we do not have it, we will have neither the economic strength nor the leadership prestige we need in a very dangerous world. We will not have the economic performance we expect. We will have to keep on spot-welding and sweating out a great many nasty, painful crises, without ever getting to the point where we can lead economically.

I have over-dramatized quite intentionally. We are still ahead, but not because we are moving fast but because the others started from so far back. They are closing the distance every day in practically all industries. There are very few industries in this country today which, in terms of relative productivity, are where they were five or eight or even 25 years ago. Industry after industry is drifting and is very proud of making a little headway, while other countries are racing ahead.

Thus, I think, we have to accept as the challenge. It is not something that more government spending can cure, or more this or more that. The only thing that can cure it essentially is a re-orientation of attitude, a realignment of priorities, which puts building and maintaining strength and capacity to build strength first. It is not a goal in itself, but it is the foundation for all the other goals we might have.

Where Growth Never Stops: G

alw

ALTHOUGH our exports or our imports amount to less than 5 per cent of our gross national product and we are one of the more self-sufficient nations, we have been maneuvered into a position under which foreign affairs, and our international entanglements, now dominate and will continue to dominate our domestic, political and economic climate.

Our international position is weaker and far more dangerous than is commonly assumed. Nor have we been blessed with unusually high-quality domestic statesmanship.

Even if one were to conclude that the political and economic climate is deteriorating and degenerating, the disease may not be fatal. Such pessimism need not lead to despair for at least two good reasons:

- Trends rarely persist in one direction indefinitely; they may plateau or even reverse;
- In some cases, conscious action of a smart and intelligent nature on the part of those opposing current forces may cause trends to pause or even change direction, although in international affairs we have reached a near-impasse.

If one is determined to alter trends or to improve the political and economic climate, it is important to have basic bench marks, criteria or anchors by means of which to test *both* general and specific trends and current policy recommendations. The authors of the Declaration of Independence, of the Constitution and of the Bill of Rights had clear-cut ideas of what they wanted; they were not confused and bemused as are most of us today. In the absence of some such general but precise principles—some basic goals and methods—every new idea, whether put forward by a politician, union official or socio-political experimenter, fails to fall into place in an orderly fashion. Then confusion takes over and divided counsel prevails.

But government is potentially dangerous because it has the power to tax (wring from the citizen involuntary contributions) and it has a monopoly of the use of force (it should have such a monopoly).

Concentration of power is the great threat to freedom. Where human freedom has failed, government has become the tyrant. The great enemy of mankind is overly concentrated government, a lesson which is being lost here and never learned in many, if not most, parts of the world. The purpose of a written constitution with a bill of individual rights is to reduce the dangers of what is now gripping the entire planet.

For this reason we need to have firmly in mind the proper structure, nature and function of government. We need strong but limited government.

Governments now absorb about one-third of our income. Government finance now rests on such a multitude of levies and so much upon indirect taxation (excises, payroll, corporate and withheld personal income taxes) that the taxpayer hasn't the vaguest idea of what he is paying (nor does the average taxpayer concern himself). This makes it easy to get public support (or even just public apathy—which is just as good from the politicians' viewpoint) for new spending programs and intervention, regardless of their merits. The alleged unmet government needs in our society would easily add up to the other two-thirds of our income. By 1970, governments will absorb over 40 per cent of our income unless we develop a firm concept of limited government and evolve articulate support for this view. The political and economic climate of business will pass through much travail in the interim. Authoritarian government (with wage, price, investment and personal spending control) is not to be ruled out.

The major function of government should be the protection of individual freedom both from foreign and domestic enemies, to preserve law and order, to protect property and help to foster competition and economic stability through a sound credit and money policy. If government did these few things and did them well (and wasn't overloaded with side and minor issues), we would be far better off than we are by having government intervene on countless fronts as it now does. Our central government has lost all sense of the distinction between nation-wide problems (fire control, juvenile delinquency, etc.) and truly national problems which can only be handled by the central government.

Beyond these basic functions, government may at times enable us to accomplish jointly things which need doing but which we cannot do through the free market or voluntary private effort. But any such enlargement of government functions is potentially fraught with danger. We should not depart from the basic

: Government

always bigger and bigger as long as we permit it

This is the area of American life where no one doubts continued growth—the area of government. Each year government becomes larger, more powerful, touches the lives of more people in a more direct and directing way. Once a new arm of government is born, a new governmental agency created, it's here to stay. Few disappear. We need strong government—but limited government, says Dr. Schmidt. The strongest American traditions are in free enterprise which is just the opposite of government doing more and more things for more and more people. All this is an old, old theme—most adults today have lived through this period when government has shown its greatest growth. But now, Dr. Schmidt asks: when, where and under what circumstances will the people decide: this far and no farther.

function of government unless there is a clear and undoubted informed consensus for doing so. By leaving the great bulk of activities to private effort and voluntary co-operation, we can then be certain that the private sectors of our society will act as a check on the powers of government and provide an effective guarantee of freedom of speech, religion and thought—goals of political freedom which are, or should be, superior, even to economic freedom, even though many people in Asia, Eastern Europe and elsewhere have learned the hard way (and too late) that economic freedom (private property, occupational choice, consumer choice, investor choice, etc.) is an essential and indispensable counterpart of this larger personal freedom.

If we are to have a sound political and economic climate, the next broad anchor is that government power should be dispersed and diffused. Suitable checks and balances should be built-in: a bicameral legislature, constitutional limits on the power of any one body, a judiciary which interprets the Constitution instead of catering, infant-like, to the whims of politicians and an executive who has some independence in suggesting and retarding legislation.

Furthermore, if government must exercise additional compulsory power it is better that it be near at hand at the local community level than at the county level, better in the county than the state, better by the state than in Washington. If you do not like what your local community does, you can move to another community; even though few citizens will take this step, the mere possibility acts as a check on arbitrary government. If a community or state offends, one can move to another. If Washington offends, there is no really open alternative. Thus, if we are to preserve freedom and improve the political and economic climate, the need for dispersing the power of government is obvious. Under this approach mistakes will be small, major catastrophes will be minimized and more readily reversible.

Those who want bigger government which will do more for the people (or who want to earn credits in a popularity contest) have, of course, a strong argument for by-passing local and state government—a single

DR. EMERSON P. SCHMIDT
Director, Economic Research Department
Chamber of Commerce of the U. S.

law at the national level is easier to put through and enforce than to deal with a myriad of state and local governments. Such a uniform, monolithic approach, however, is wasteful and arbitrary, particularly in a large country with greatly divergent conditions and situations. This argument for centralized government power has two sides: the power and authority to "do good" is also the power to do harm. What seems good to you, furthermore, may be evil to your neighbor. Those who wield the power and authority today may be replaced with scoundrels, or worse scoundrels tomorrow. The great tragedy to the pell-mell drive, here and abroad, toward the centralization of power is that it is so often led by men of goodwill, but who do not know what good is, and who will be the first to denounce its consequences, once they are on the outside looking in.

One basic and legitimate objection to undue bigness—whether in business, labor unions or agriculture—is its power to coerce, to compel or even threaten, by virtue of its bigness and power, the economic and other freedoms of the citizen. By government becoming unduly big, the dangers are multiplied. The government has the power of coercion. But perhaps even more importantly, by subtle, indirect and devious ways, the government, as a big buyer, hirer and seller, money lender and possessing the power to make money grants, can subdue thought, expression and criticism.

You do not bite the hand that feeds you.

Many companies today find the government to be such an important customer that their officers are subdued into speech-paralysis on key issues affecting the future of our country. Government doesn't have to act or even threaten; its power to damage the enterprise is so great that the mere existence of the power is enough! You just don't offend a good customer.

Once the National Government becomes the important source of teachers' salaries, teachers will have to be cautious both in discussing educational questions and other public issues, whereas under local finance any teacher put upon can move over to the next county or city. The Hatch Act will cover more and more people, making them political eunuchs.

Today the national government is the *biggest* in endless lines—the biggest employer, landlord, landowner, forest owner, grazing landowner, mineral deposit owner; the biggest tenant, debtor, lender, warehouser, auto-fleet operator, publisher, insurance writer, grain owner and storer, power producer; the biggest single buyer of innumerable items; the biggest producer and controller of statistics (a basis of our economic intelligence), biggest mass opinion-maker, biggest deficit operator, biggest depositor in banks, biggest issuer of securities—the list is endless.

Furthermore, government, considering its relative size, is our fastest growing industry. It will dominate (if not dictate) our lives for as far as we can see into the future—unless informed opinion takes stock of the situation and is able to cause a halt. This all has profound implications for the future of our political and economic climate and our personal freedom.

"Today the national government is the biggest in endless lines—the biggest employer, landlord, landowner, forest owner, grazing landowner, mineral deposit owner; the biggest tenant, debtor, lender, warehouser, auto-fleet operator, publisher, insurance writer, grain owner and storer, power producer; the biggest single buyer of innumerable items; the biggest producer and controller of statistics (a basis of our economic intelligence), biggest mass opinion-maker, biggest deficit operator, biggest depositor in banks, biggest issuer of securities —the list is endless."

Many of these activities (plus the effect of controls and intervention) of government compete unfairly with the private efforts of the citizens trying to make a living and make the private market work less well, rather than better. Much of this intervention and competition is tainted with immoral and unethical practices or at least with such overtones.

The Post Office, for example, not only accounts for one-half of the rise in the public debt since 1946, but the deficits would have been much larger had the postal service paid property taxes on its assets, charged depreciation on its depreciable assets and paid for services rendered to it by other government divisions. Thus the real economic costs are falsified by the accounts and statistics.

Much the same could be said of Federal power projects. Accounting methods and investment-base allocations hide the facts from the public. A Senator from the Tennessee River Valley in a speech to a Washington area audience told his listeners that the test of the fairness of their electric rates would be the TVA rates. Either he was ignorant of TVA's subsidies and the accounting and statistical facts or he merely traded on the ignorance of his listeners. The Federal Power Commission and the Internal Revenue Service, furthermore, deprive the tax-paying investor-owned utilities of charging as part of their operating costs the expenses involved in setting forth the facts as they see them — another important liberty which has been lost, not to mention the basic question of freedom of speech and of the press.

Even though the average revenue per kilowatt-hour for residential use has dropped from about 3.8 cents in 1940 to under 2.5 cents in 1960, while the Consumer Price Index of the BLS has more than doubled, the electric power industry and its suppliers have political and economic climate problems.

By turning economic affairs over to Congress and Federal bureaus, these affairs are not suddenly embraced by paragons of wisdom or virtue in Washington.

Look at such a basic matter as the integrity of the dollar, a peculiarly constitutional government responsibility. People have been encouraged to save and invest in insurance, in

mortgages and in government bonds. Since the beginning of World War II, the buying power of the dollar has been cut away by more than half. Government proudly boasts of its bank deposit insurance program, but it never warns the depositor—not even in the fine print—that the dollars deposited may be eroded by loose fiscal and monetary power. What is the moral difference between a bank robber who takes half your money and public policies which leave you with only half of your purchasing power?

What of the wisdom or ethics of the government policies perpetuating agricultural programs which encourage fabulous misallocation of human and other resources, lead to higher prices for the housewife and force the general taxpayer to transfer tax dollars to the farmers via the U. S. Treasury, under the guise of helping the farm poor, when as a matter of fact the farm programs damage them more than they help them?

What kind of economics would advise a compulsory rise in the legal minimum wage at a time when unemployment is a worry?

Why should Administration spokesmen concerned with inadequate economic growth urge an Old Age Survivors Insurance premium on retirement of men at age 62?

The gross inconsistencies in the economic or political economy philosophy and its egregious contradictions of the current Administration (and the Congress) based clearly on its own stated goals and objectives are tragic and if they continue can lead to dire consequence, at home and abroad.

The Eisenhower Administration long chafed under the 1918 4¼ per cent Congressional price-fixing interest rate ceiling on public debt securities; it refused, deviously, to get around the control, when money markets became tight, by selling the securities at a discount. But the Attorney General last April ruled that such a devious way around the will of Congress is legal — go ahead as needed!

Government intervention in strike issues is likely to increase. Government intervention, or the intrusion of third-party arbitrators and recommenders of settlement, is virtually always against the consumer.

Thus, in one area after another where government has intervened it has brought failure, chaos and inferior moral standards.

Turning more responsibility and decision-making away from the individual and private control and into government hands is said to give us wiser decisions, more ethical practices and a better life for all. This is a great myth; most people seem to be too bemused or too scared to challenge it.

This does *not* imply that private individuals or businesses are above reproach; when they violate economic law and use resources wastefully, the consumer marks them for liquidation. Government activities never have to meet the test of the market. When private business violates statutory law, it should be tried, suffer the penalty when found guilty under due process of law.

The strength and virility of our society depend fundamentally on the character of our people and productivity of our private economic system. Instead of whittling away private decision-making and strangulating private effort, our public policies should encourage more effort, more innovation and more enterprise, relying on competition to pass the gains of productivity on to the people.

In international relations our record and plight have reached a new and frightfully dangerous low. The new Administration promised much and delivered worse than nothing—although one should hasten to add that it inherited a mess from the previous Administrations going back more than 20 years, or at least back to the Yalta agreements of 1945.

With a rising Africa, ripe to fall into the Communist sweep, our domestic desegregation and integration policies could not have been better timed or designed to alienate nearly all of black Africa. Instead of encouraging voluntary desegregation and voluntary integration at the state and local levels, government stupidly has made these national and international problems and placed a liability upon us from which we will not recover for 100 years, if then. The more the national government forces the issue, the more talking points it is likely to provide to Moscow, Peiping and to the countries of Africa and to peoples in lands which we had counted upon as reasonably dependable allies. Central and South America ought to be our first concern, not the Congo, Iran, Laos or South Korea. Our first duty is to keep our own house in order; next we should be concerned with the nearest neighbors. The damage has been done. There is now no facile solution or even resolution to the problem.

After World War II we went emotionally all-out internationalist, having found that our policies of non-foreign entanglements after World War I did not yield the best results. But now we have made military and economic commitments vastly beyond our capacity to deliver—the reverse being the very heart of a sound and viable foreign policy. We have raised the expectations of foreigners and foreign nations which are certain to remain unfulfilled. The Administration, in a process of incompetent self-delusion, is continuing to raise them.

Because we are rich, big and

(Continued on page 37, column 1)

"If people are not dedicated to the concepts of the dignity of man, the rule of law, limited government and constitutional stability—values and institutions which we inherited from the English—dictatorship is inevitable. If a people does not understand the key importance of the philosophy of limited government and the dispersal and diffusion of power, and then blindly merges political and economic power (property, investment, production, employment, etc.) into the same and a single government control (that is, create collectivism), society is destined for loss of human freedom and for authoritarian rule."

The Big New World of

CERTAIN long-range population and other subsidiary factors are now operating to bring more older persons into the home finance market. In the period ahead lenders all over the country, especially those located in large cities and medium-sized older communities and towns, can anticipate that:

▶ More persons aged 65 and over will be seeking their financial help in buying homes—either newly constructed or older, existing single- and multi-family structures.

▶ More older persons will seek financial help in buying into cooperatives and eventually into condominium housing.

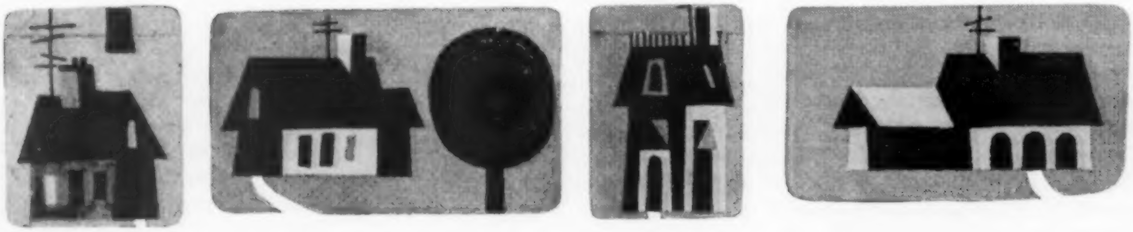
▶ More older persons will be seeking extensive home improvement loans.

▶ More persons, both young and old, will be seeking help to rehabilitate and convert existing older structures into smaller, more efficient units.

What are practices and policies now? What new factors, if any, should be considered with respect to such loan applications? On what sorts of homes should they be granted? In what localities and neighborhoods?

Lending institutions, entrusted as they are, with the investment of other people's money, have traditionally cast a rather cautious eye at requests by older persons for long-term home financing. A study made in 1954 by the U. S. Savings and Loan League, showed that only five per cent of current lending volume was in homes financed by savings and loans to persons 60 years and older. The same study, however, showed that few institutions have rigid policies in this respect. Most have preferred to reach individual decisions, depending upon the particular applicant's reasonable ability to pay, either out of capi-

J. G. Vaughan



Housing for the Elderly

Its scope and its opportunities combine to create a bright new horizon in financing

▶ ▶ ▶ ▶ ▶ ▶ *It's an area of housing to which builders, for the most part, have given little consideration but, in the years ahead, will find constitutes one of their larger markets. The need for the specialized type of housing which this age group wants is established, and the extent of the volume ahead is becoming more apparent all the time. There is a great deal we do not know about housing for the elderly. Mr. Vaughan cites some of the characteristics which will have to be taken into account in building for this group.*

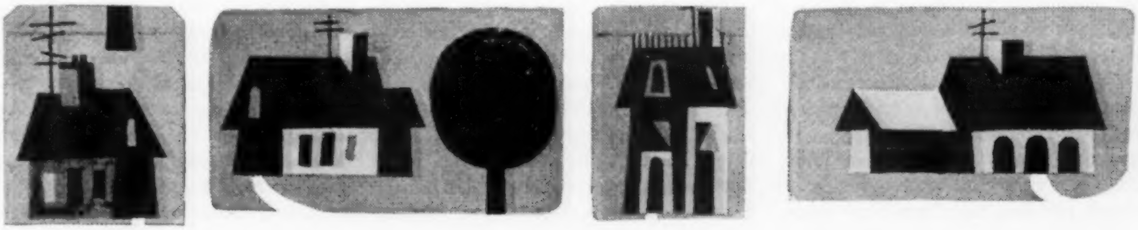
By J. G. VAUGHAN
Director, Better Housing League of Greater Cincinnati

tal assets or through various insurance and co-signatory arrangements.

Actually the demand has been relatively small. In spite of the setbacks of the depression years, by the time most persons with home-ownership potential reach late middle-age, they already own their own homes. They have either accumulated considerable equity or have paid off their mortgages in full. Approximately two-thirds of Americans age 65 or over are in this class.

In recent years, a relatively high proportion of the lending volume to older persons has been in the warmer states to which retired men and women have been migrating in such large numbers and where the possibility of quick turnover in the event of death or permanent disability of one or both the partners is especially strong.

Housing the elderly, therefore, has been largely outside the purview of mortgage banking and savings and loans institutions, and interest among the general public has focused largely on those who, because of inability to care for themselves, have sought the protection of group living. This has resulted in the development of certain myths and stereotypes about the elderly as a potential home-buying market, probably more on the part of builders and developers than of



lenders. Simply because most of the existing stock of housing built for the general population is not suited to older persons, it is assumed they will not or cannot buy.

A changing population: While we have known in a general sort of way that the average age of our population is going up, it took the release of the first 1960 census figures to awaken us with a start (and perhaps with a shudder!) to the *degree* to which, as a people, we are aging. Some 16 million persons are now 65 years or older. By 1980 it is expected that 26 million will be of this age group.

There is a great deal more to it, however, than any gross national population changes.

People who reach 65 today can be expected to live another 14 years. Not only will they live longer, but constant medical progress assures that many will live longer *in good health.* This means a lengthened desire, coupled with greater physical and psychological ability, to live independently in homes or apartments of their own. Where, even 15 or 20 years ago, an aging couple might have been resigned to growing old more-or-less-gracefully in their son's spare room, many are now thinking hard about moving into new independent quarters provided suitable accommodations can be found.

Urban renewal is adding an unknown but sizable number of new, older potential home buyers. As Operation Bulldozer continues to carve out our central cities for commercial and residential redevelopment and highways expansion, disproportionate numbers of older persons are being displaced.

The "gray" areas surrounding the clearance work also contain disproportionately higher numbers of older persons, merely because they are older neighborhoods. Many of these, however, doggedly and through apathy, have been hanging on in old houses far too big for them and in which they have a considerable financial investment. Problems of resale and repurchase, emotional investment in their old homes and neighborhoods, and the actual task of moving have seemed just too big. Now they must, or feel they must, move. Or, if they choose to stay, neighborhood and governmental pressure will be bearing down hard on them to fix up and modernize the old place as part of the total neighborhood "upgrading" process.

In Cincinnati, Ohio, for example, 17.4 per cent of the people living in the area torn down for the new Queensgate redevelopment project were 65 or over. In the city as a whole, 11.6 per cent were of the older age group, but in suburban Hamilton County surrounding Cincinnati only 6.6 per cent.

Government policy with respect to housing for the elderly is another factor. The Kennedy administration has spoken out forcefully on this point. Publicity about the various forms of governmental assistance and intervention through FHA and in other ways on behalf of the elderly will be reflected at the counters of lending institutions.

Some important market factors won't be here in future

The new housing market. New private residential construction fell off 19 per cent in 1960 over the previous year. Current residential lending volume in March, 1961 was still off slightly over the 1960 first quarter. In my opinion, part of the decline can be attributed as much to misjudging of the market by builders and developers as to general economic conditions.

The economic review of 1960 by the National Association of Home Builders noted, for example, that: "The storage backlogs of demand accumulated from the depression of the 1930's and from World War II are no longer significant economic factors; current demand will *more likely reflect needs arising from current market changes and from replacement* rather than from accumulation of past and postponed requirements."

Educational efforts by the NAHB among its own membership are emphasizing more and more the rehabilitation of older homes in small towns and cities to meet a new demand for small, efficient places to live in. For, in addition to the elderly who have outgrown their need for large houses another sizable group is now coming into our population: the first crop of the "G. I. housing" babies.

The oldest of the children raised in post-war suburbia (those born before Dad went off to war!) are now beginning to grow up, ready or nearly ready to desert the family nest to make independent homes of their own. In six years the bumper crop born the year after Father returned, and who now make up the tremendous teen-age market for popular records, special clothing, bottled drinks, and so on, will be of age. During the 1960-70 decade, 26 million people will enter the labor market for the first time, an increase of 40 per cent over the 1950-60 period.

Following the American shelter-life cycle, the first independent home for many of these new young adults is likely to be a small rental efficiency apartment, similar in many of its design and location characteristics to what many oldsters seem to require. It will take a few years before the young people are ready for the Suburbia of Tomorrow.

Undoubtedly part of the reason we have as a nation aimed our housing at the young growing family has been caused by the breeders of "gloom and doom" with their emphasis on the relatively poor economic position of many of those whose life has outspanned their capacity to produce income. While many old people are indeed badly-off, there still exists a sizable number who could well afford better homes than they now live in.

In 1959, two out of every three heads of household aged 65 or more had an annual income of more than \$2,000, and 55 per cent had liquid assets of over \$500. This did not include equity in present homes. A study made in Philadelphia several years ago showed a market in that Greater Metropolitan Area of from 13,000 to 26,000 units in the \$40 to \$80 rental bracket for older persons.

Moreover, as people grow older they can and do put a greater part of their income into shelter. They benefit from the over-65 income tax exemption. Their need for automobiles, new furniture, and other consumer goods is less. And with decreasing ability to get about come stronger feelings about "my home." It is valued more, so people are willing to pay more for it. And constant improvement in the income picture is

predictable. Expansion of private pension plans and social security is increasing the proportion of older persons with income adequate to pay for standard housing.

Even in the slum areas being torn down in the urban renewal process, the oldsters displaced are by no means all indigent or poor. Were suitable housing available, many could afford to live better than they have been.

A somewhat different economic situation exists in the older sections of our cities and towns that fringe the urban renewal clearance areas. There, many old persons have been scraping along, letting the houses in which they have acquired considerable equity deteriorate. Then they die, leaving a worn-out oversized house for their heirs to dispose of. How then can these persons be brought into the housing market?

The right interior: In spite of the educational efforts of their trade associations, too many builders and developers do not realize the extent to which the housing market has been changing. They continue to build "by the seat of their pants" a housing product as obsolete for a big slice of today's market as a retired Nantucket sea captain's mansion, complete with crow's nest, walk, and furnishings acquired in the China Trade.

Undoubtedly part of the reason for this are the stereotypes we have built up as a nation about the physical and psychological abilities of older persons. Seeing the faltering footsteps and forgetfulness of a few of the aged among us, it is easy to conclude that they represent the elderly as a whole. As a result when builders and developers think of this market at all, their minds run to wheelchairs, nursing care facilities, community dining rooms, and the other features of a restricted and protected environment.

This is simply not correct. Studies show that only about a quarter of all persons 65 and over are more-or-less restricted to their dwellings or to limited outdoor space. Even of the restricted 25 per cent, most are at least 75 years old. The vast majority would be able to live comfortably in *properly-designed* standard housing in standard neighborhoods and communities. But they cannot live safely

Checklist No. 1

INTERIOR DESIGN FEATURES

BATHROOM	Non-skid shower and tub bottoms	☐
	Offset shower faucets (separate hot and cold to permit adjustment of temperature before entering	☐
	Shower stalls (where used) at least 4 feet in one dimension (for an inside bench)	☐
	Grab bars next to toilet seat and both horizontal and vertical at bathtub	☐
	Strong towel and shower curtain rods (to act as grab bars in emergencies)	☐
	Cross rather than round faucet grips	☐
KITCHEN	Kitchen appliances and storage facilities between 2-foot and 6-foot levels	☐
	No under-counter refrigerators.	☐
	Electric range tops and ovens (preferably raised)	☐
ENTRYWAY	Elimination of entry steps (or addition of handrail)	☐
	Lobby or entrance hall (where used) without the double-door device	☐
THROUGHOUT	Heating systems designed for 75° temperatures, baths 80°	☐
	Low window sills (for seated viewing of outdoors)	☐
	Easily-operable, cleanable windows—sliding or casement preferred	☐
	High electric outlets (between 2 and 3 feet from floor)	☐
	Well-located, plentiful electric outlets (to eliminate hazardous, trailing extension cords)	☐
	Electric circuits to permit higher-than-normal intensities	☐
	Elimination of thresholds	☐
	Empty conduits (in new structures) for possible later inter-com and emergency alarm systems	☐
	3-foot doors	☐
	No interior steps (dropped living rooms, split levels, etc.)	☐
IN ELEVATOR BUILDINGS	4′4″ x 7′ cabs	☐
	Built-in TV and radio antennae systems	☐

in much of our *present* standard housing with its long flights of steps and other hazards. The irony is that builders and developers continue to incorporate additional hazardous features, such as step-down living rooms, while omitting those relatively inexpensive features that would at the same time attract older persons and would not detract the young couples now looking around for independent homes for the first time.

On page 31 is a checklist of interior design features especially tailored for the elderly, but by no means distasteful to young couples as well. Incorporating these features should enable builders to tap a sharply increasing market. Wherever the accommodations represent properly-designed, well-located units, I suggest it is not necessary for the life expectancy of the borrower to be co-terminous with the loan.

These features have been selected from among those placed in housing designed especially for the elderly which would be appropriate for use in today's general housing. They take into account the following physical characteristics of the aging process. Most people have begun to experience these by about the age of 65, but some never experience them at all, and others begin to experience them much earlier in life:

- Decreasing mobility
- Special difficulties with walking and climbing stairs
- Reduction in physical strength
- Lessened visual and aural acuity
- Difficulty in adjusting to temperature changes.

It is my opinion that, insofar as possible, *all* new apartment houses and multi-unit structures should incorporate the features in the check list.

Lending institutions, however, which do not customarily finance multiple housing but confine their service to individual home owners, can use the check list in a variety of ways. Two possibilities are:

First, to guide older persons themselves into the type of unit which would be useful and satisfying to them for as long a period as possible, and would also have good, quick resale value to the growing number of their age compatriots. (On this point it is axiomatic that a man will go to great lengths to keep up the payments on his "home," whereas he may act quite differently with respect to shelter that he feels to him is not a "home." Just as they have done yeoman service in steering the young, post-war family into the dream-kitchen, backyard-barbecue type of dwelling that has made for so many younger Americans their dream of home ownership to come true, lenders now have a similar opportunity to do the same for our senior citizens.)

Second, to aid individual owners of older buildings into the kinds of rehabilitation and conversion efforts that will attract and hold the combined new market of old and very young couples and single persons.

The right location: People, of course, buy neighborhoods and locations as much as they buy houses. Because, like the rest of us, the elderly vary in income, tastes, and ways of living, no hard, fast rules of neighborhood can be set down. Checklist No. 2 (*see below*) can, however, be used by

(Continued on page 37, column 3)

Checklist No. 2

	FEATURES	
TRANSPORTATION	Easy access to public transportation	
	For employment (15% of persons over 65 are in the labor force).	☐
	To community facilities: libraries, "golden age" clubs, theaters (with age and retirement these facilities grow in importance)	☐
	To visit friends and relatives	☐
	To major shopping	☐
	To churches (with age, the religious life becomes increasingly important)	☐
SAFETY	Well-lighted streets	☐
	Police and fire departments within 3 minutes	☐
	Guarded street crossings	☐
	Paved streets	☐
	Concrete sidewalks in good repair	☐
AESTHETICS	Shade trees in yard	☐
	Frequent trash and garbage removal (also desired for health and sanitation reasons)	☐
	Trees along street	☐
NEIGHBORS	Mixed in age (usually preferred)	☐
	Of similar "way of life"	☐
	Children "close by but not on top"	☐
OTHER FEATURES	Food and drug stores within easy walking	
	Parks, with sitting areas separated from tot lots and playgrounds	☐
	Outdoor benches near bus stops	☐
	Quiet, without isolation	☐

President's Page

ONLY THROUGH SAVINGS CAN WE HAVE GROWTH

THE continued economic growth of the country, including the continued expansion of our own business, depends upon the increasing availability of savings for investment. There is no other way through which growth may be safely achieved. As the world has been shown time and again, an attempt to achieve growth through a mere expansion of bank credit can lead only to a self-defeating inflation. We have seen this ourselves during the postwar period when a chronic shortage of savings at a time of high demand for houses and business plant more than doubled our building cost in a 15-year period.

Robert Tharpe

This Association has wisely stuck to the principle of growth through saving. In its Statement of Policy it has recognized that careful fiscal management and a sound monetary policy are essential to a healthy mortgage industry.

We must, therefore, direct our effort so as to help in the creation and maintenance of an environment favorable to saving; and, for us in the mortgage banking business, this specifically means an environment favorable to the placing of savings in the institutions that have historically served the mortgage market and favorable, also, to the continued investment in mortgages by these institutions.

Tax policy is one of the instruments through which an environment favorable to saving and to mortgage investment may be created or destroyed. This very year we appear to be getting a demonstration of how tax policy may work to influence investment policy. Following the revenue legislation of 1960 which materially increased the tax burden on life insurance companies, there has been a distinct decrease in the proportion of asset growth going into mortgages and corporate bonds and an increase in that going into tax-exempt securities and common and preferred stocks. Moreover, in the mortgage area, there appears to be a strong preference for high-yield conventional loans on business and apartment property rather than for loans on home property.

It is hard to believe that so noticeable a shift as has occurred is due solely to changes in potential demand. Part of the shift is certainly due to disruptive effects of FHA interest rate changes and policy delays (these, too, can be included under the heading of creating an environment unfavorable to mortgage investment). In the final analysis a good part of the shift must be attributable to tax policy—and the shift has probably only barely got under way.

This is why MBA must be apprehensive of other changes in the tax laws that may affect the flow of mortgage funds. At the same time, MBA does not need to assume that no change at all is reasonable. It is simply saying, stop and look before action is taken, to make sure that the action does not discourage savings and economic growth. There has not been much evidence that this year the Treasury did take such a look.

This is not basically a question of tax equality. Tax equality may be achieved in a number of ways and in ways that can encourage growth as well as the reverse. This is not a question of subsidization. Numerous features of the Revenue Code are designed to encourage certain types of economic activity.

The basic questions are not these. They are whether we want to encourage or penalize saving and whether we want to encourage private mortgage lending or depend on greater direct government action. Tax policy is bound to work in one direction or the other. It is entirely fitting that we attempt to assure that it will work for private saving and private investment. The other questions should and can be resolved within this context.

Robt. Tharpe

PRESIDENT

The Tax on Corporate Accumulated Earnings

What can a company retain as earnings most advantageously under present tax laws—and what must be paid out in dividends to accomplish the most, tax-wise? Mr. Kilpatrick, in this third of a series of articles on tax matters with a bearing on mortgage banking, examines the problem.

By H. CECIL KILPATRICK

THE STOCK of M Corporation is owned by two brothers. As of the beginning of 1960, the corporation had accumulated earnings of $150,000. Its net income, after income taxes for 1960, was $300,000. No dividends were paid during that year. Shortly after January 1, 1961, the brothers went to their lawyer and said they had heard that there was a special penalty tax on undistributed earnings of corporations, that they had just learned of this and were quite concerned about the effect of this tax on their business.

The attorney explained that since dividends are not deductible in computing the taxable income of a corporation, there would be a serious possibility of tax avoidance if stockholders were permitted to pile up earnings in a corporation, even though not needed in its business; and to avoid the individual income taxes they would have to pay as a result of dividend distributions. For this reason, the tax laws impose a penalty tax on corporations which follow this practice.

Their lawyer gave them a thumbnail sketch of sections 531-537 of the Internal Revenue Code which provide that if a corporation permits its earnings and profits to accumulate in order to escape the income tax which would be levied on the stockholders if they were distributed as dividends, the corporation is subjected to a tax on the amount so accumulated, amounting to 27½ per cent of the first $100,000 and 38½ per cent of the rest. Furthermore, if the accumulation is "beyond the reasonable needs of the business," this is presumed to evidence an intention to avoid the dividend tax, and a heavy burden is placed on the corporation to show that the accumulation was not in excess of reasonable business needs.

The taxable income of this corporation was $300,000, and its ordinary income tax was $150,500, leaving an accumulation of $149,500. The attorney pointed out that, therefore if the agent should assert that there was no reasonable necessity of accumulating more than $49,500, he would demand 27½ per cent of the other $100,000, or $27,500.

The clients were shocked and concerned as to whether they should have declared a dividend of $100,000, as they were not sure they could justify the accumulation under the rigid rules of the tax law. Their counsel interrupted to say there were some other questions to be considered. He asked about the taxable income of the two stockholders for 1960. It developed that A, a married man, had filed a joint return showing $30,000 taxable income, and B, a single man, had reported $20,000.

"Cheer up," said their lawyer, "you will still be ahead of the game for not declaring a dividend, even if this penalty tax is asserted and you lose the argument." He then showed them the following comparison:

1. No Dividends Paid and Penalty Tax Asserted

The corporation's taxes:

Ordinary income tax	$150,500
Penalty tax	27,500
A's tax on $30,000	9,460
B's tax on $20,000	7,260
Total	$194,720

2. Dividends if $100,000 Paid

The corporation's tax	$150,500
A's tax on $80,000 (after dividend cr.)	37,480
B's tax on $74,000 (after dividend cr.)	43,360
Total	$231,340

Hence, even if the accumulation could not be justified, the aggregate taxes of the corporation and its owners would be $36,620 less for not having paid dividends. The reason is obvious from a glance at the tax tables. A single individual reaches the 30

per cent bracket when his taxable income exceeds $6,000 and the 38 per cent bracket when he gets above $10,000. The married taxpayer reaches these brackets at $12,000 and $20,000, respectively. Yet the penalty tax, as stated, is only 27½ per cent on the first $100,000 and 38½ per cent on the amount above that figure.

Nevertheless, as A pointed out, $27,500 is a lot of money to pay out just because the Internal Revenue Service thinks it knows more about the reasonable needs of the corporate business than do the corporate directors.

The purpose of this article is to discuss the question of how the Internal Revenue Service and the courts have gone about determining when an accumulation is beyond the reasonable business needs of the corporation.

In 1939 the Commissioner instructed the field personnel to give close attention to the following matters in considering whether to assert the penalty tax:

(a) Distribution of less than 70 per cent of earnings, or, even where more than 70 per cent was distributed, retention of the rest appears unnecessary in view of the corporation's financial position or the nature of its business;

(b) Investment in securities or other properties unrelated to normal business activities;

(c) Advances or loans to shareholders or officers;

(d) Closely-held corporations;

(e) Accumulations of cash or other quick assets which appear to be beyond reasonable needs.

In its report on the 1954 Code, the Senate Finance Committee branded the 70 per cent test as "erroneous or irrelevant," but this does not deter examining agents from taking a hard look at corporations which do not distribute a substantial part of their after-tax income. Corporations most vulnerable to tax are closely-held companies which carry substantial cash balances, or invest in securities or other assets having no relation to their business, or lend substantial amounts to the principal shareholders. The Commissioner's regulations do recognize that earnings are properly accumulated if retained for working capital needed in the business, or invested in additions to plant reasonably required by the business, or placed in a sinking fund for the purpose of retiring bonds issued by the corporation.

Prior to the 1954 Code, the Internal Revenue Service had adopted the so-called "immediacy test," under which there must be an immediate need for the funds in order to justify the retention of earnings. The tax-writing committees of Congress called this an improper rule, and a provision was written into the law that the term "reasonable needs of the business" includes reasonably *anticipated* needs. The Committee reports said that this was intended to cover the case where the corporation has specific and definite plans for acquiring property for use in its business, but would not apply where the future plans are "vague and indefinite," or where execution of the plans is postponed indefinitely.

The regulations under the 1954 Code give the following examples (not to be considered exclusive) of grounds, if supported by evidence, for finding that the accumulation is for the reasonably anticipated needs of the business:

"(1) To provide for bona fide expansion of business or replacement of plant;

"(2) To acquire a business enterprise through purchasing stock or assets;

"(3) To provide for the retirement of bona fide indebtedness created in connection with the trade or business, such as the establishment of a sinking fund for the purpose of retiring bonds issued by the corporation in accordance with contract obligations incurred on issue;

"(4) To provide necessary working capital for the business, such as, for the procurement of inventories; or

"(5) To provide for investments or loans to suppliers or customers if necessary in order to maintain the business of the corporation."

The decision of what is reasonably needed in the business is a business decision. The regulations seem to recognize this by saying that an accumulation is excessive "if it exceeds the amount that a prudent businessman would consider appropriate for the present business purposes and for the reasonably anticipated future needs of the business." However, the large number of cases where this issue goes to litigation indicates a wide diversity of opinion on this question of reasonableness between revenue agents and corporate executives, though there is some comfort in the fact that the courts give great weight to the judgment of the businessman. The United States Court of Appeals for the Second Circuit has expressed the view (in *Casey v. Commissioner*, 267 F. 2d 26) that the 1954 Code indicates "that Congress did not want the taxing authorities to be second-guessing the responsible managers of corporations as to whether and to what extent profits should be distributed or retained, unless the taxing authorities were in a position to prove that their position was correct."

It is, nevertheless, of the utmost importance that there be a well documented corporate record of why the earnings are being retained. In one case (*Smoot Sand & Gravel Corp. v. Commissioner*, 241 F. 2d 197), the opinion of the Fourth Circuit, in dealing with the taxpayer's contention that accumulated earnings were set up in contingency reserves, said:

"It cannot be disputed that corporate reserves may properly take such objectives into account. But formal entries upon the books do not alone substantiate such needs, nor is justification for such reserves to be found merely in subsequently declared intentions. The intention claimed must be manifested by some contemporaneous course of conduct directed toward the claimed purpose."

As one writer has pointed out (Delaney: "What is 'Accumulation Beyond Reasonable Needs' of the Business?", TAXES, May, 1961, p. 410:*

"Where the corporate directors, during the years in issue, received and approved plans and policies for expanding facilities, making provision for protecting the corporation's interest in its business local, and for the possible financing of installment sales of its products, the accumulation of surplus was approved, while the failure of the corporate directors to formulate any concrete plans or enter upon any negotiations or take any definite

*This article contains an excellent collection of court decisions. Also recommended for study is the article by Stanley S. Weithorn appearing in the 1959 publication of New York University's Institute on Federal Taxation at page 299.

steps to commit the corporation and the funds it had accumulated to the risk of any business resulted in the accumulation being held to be unreasonable. To the extent that surplus has been translated into plant expansion, increased receivables, enlarged inventories or other assets related to the business, the corporation may accumulate surplus with relative impunity."

Returning now to the case of Corporation M and its stockholders A and B, further investigation developed the following facts:

In December of the taxable year, the stockholders had reviewed the affairs of the corporation and decided it would be imprudent to pay a dividend because:

(a) A large institutional investor of which the M corporation was loan correspondent had given notice that it was shifting over to another correspondent. The balances on loans then being serviced had declined to a point where service fees barely covered expenses.

(b) M corporation had commitments to a builder which would make it necessary to use substantially all of the cash on hand to build up a portfolio which would not be in shape to sell to another investor for another six months.

(c) The annual expenses of M corporation were running around $900,-000.

The courts generally recognize the propriety of reserving for working capital an amount equal at least to a year's expenses, and, as pointed out above, the Treasury regulations approve accumulation of funds needed for procurement of inventory. From a consideration of these factors, it seemed clear to M's attorney that there would be no tenable grounds for the assertion of the penalty tax. He did lecture his clients, however, as follows:

"Just because you are a two-man corporation, don't think that corporate minutes are an unnecessary formality. You should have held a formal directors meeting and prepared minutes, in which you should have recorded the facts, giving the name of the institutional investor, referring to the date and terms of the notice from it, and specifying the date and amount of the commitment to the builder. This would at least save you the time and trouble of digging these facts out of your records when the Revenue agent calls. I would also suggest to you that your undistributed profits not be labeled merely as 'surplus' or 'earned surplus', which indicates on the surface that it is available for dividends, which may be a matter of concern to your creditors. Since, obviously, you do not expect to be in a position to pay dividends from the present surplus, why not capitalize a large part of it? Or, at least, by corporate action, reserve or restrict a substantial part, and earmark it on your balance sheet to show it is not available for dividends?"

The case of M corporation is not necessarily typical. Other situations justifying the retention of earnings would include for example:

1. Expanding business which requires a new building, the land for which has been bought or contracted for, architects' plans approved, and bids solicited from builders.

2. Commitments from new investors which will involve the accumulation of substantial new loans and employment of additional personnel.

3. The extent of bank borrowings and the fluctuations in bank balances.

The directors of the closely-held corporation should take time out, as the end of the taxable year approaches, to examine the financial picture and determine whether or not dividends should be declared, in the light of the danger signals raised by the Treasury regulations and court decisions. If there are counter-balancing factors of the kind above discussed indicating the wisdom of retaining earnings, minutes of the meeting should recite the nature of the discussion and the reasons for the decision, describing in detail (and documenting where appropriate) each of the factors relied upon to refrain from declaring such dividend.

▶ U.S. LIFE FIRMS: There are now 1,457 U.S. legal reserve life insurance companies with more than 118,000,000 policyholders. This represents 14 more than last year and more than double the number ten years ago.

Only about 1 per cent of these life companies do business on a nationwide basis. In the past fifteen years the greatest number of new companies have been established in the South and Southwest, where the growth in population has outpaced other sections of the U.S.

Life companies are in every state, with 20 states having twenty or more companies. Texas continued to lead the state list, as it has for many years, with 280 companies; Louisiana ranks second with 118 companies, followed by: Arizona, 116; Illinois, 70; Indiana, 55; Pennsylvania, 51; South Carolina, 50; Alabama, 43; Oklahoma, 43; New York, 34.

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BIG GOVERNMENT

(from page 27)

strutting, we are the envy—and, therefore, the hated—of the world, almost without exception.

In international relations there are no friendships; there are only interests. Even Bismarck, nearly 100 years ago, said that the word "gratitude" is not found in the international vocabulary. This our leaders for more than a generation did not know or understand and most of them still don't know it. George Washington understood it.

That the world is in a revolutionary ferment is in need of no documentation. Outside of most of the English-speaking countries and most of Western Europe, authoritarian and totalitarian (there is a difference) governments prevail and will prevail. Considering the conflict between political promises plus rising expectations and ability to deliver, such anti-parliamentary rule (anti-representative or republican government) is likely to continue so far as one can see ahead. Dictatorship sometimes of the Right or the military, but mostly of the Left (or in the name of the Left), with shifts from pole to pole, will dominate in countries with some 90 per cent of the planet's population; but our policy makers seem incapable of distinguishing between those dictatorships which are a direct and imminent threat to us and those which are not.

Once these powerful, popular socio-political-economic movements get under way in a massive form, there is little or nothing that can be done to stop them—*they have to burn themselves out*. This takes not years, but decades and probably generations. None of us like this. It is not a pleasant conclusion, but it seems to be the most probable conclusion for most of the planet. Our government and opinion leaders who helped break up the colonial empires during and after World War II, didn't have the insight to understand that when established institutions, methods and rule are displaced, the vacuums will fill up.

If people are not dedicated to the concepts of the dignity of man, the rule of law, limited government and constitutional stability — values and institutions which we inherited from the English—dictatorship is inevitable. If a people does not understand the key importance of the philosophy of limited government and the dispersal and diffusion of power, and then blindly merges political and economic power (property, investment, production, employment, etc.) into the same and a single government control (that is, create collectivism), society is destined for a loss of human freedom and for authoritarian rule.

Government in the United States is being led down this same road, chiefly by politicians and their henchmen (in government and outside) who are in competition with one another for public office and the emoluments thereof. Our commitments throughout the world, far in excess of our capacity to deliver, will make for bigger and bigger government. The tax burden will grow and grow—unless . . . the new Administration has acquired men of high IQ and educational attainments.

Trends, as said previously, do have a way of pausing and reversing themselves. At times (only at times) is it possible by conscious, well-planned action to slow down or even reverse a trend. Are the responsible and wise individuals in our country going to allow the country to be ruined and our freedom destroyed? The solutions are not obvious. Will they take the time and effort to establish the necessary seminars, study groups and self-assessment steps and facilities to diagnose the problem and then (only then) tailor the necessary counter-actions for the disease?

Just as any journey begins with a single step, so the fight for freedom must begin with the individual—for once we become well-informed, articulate and persuasive spokesmen, we will become the centers of influence. The most competent golfer, the most eloquent clergyman or the most gifted actor without fanfare or conscious publicity may naturally draw observers to himself *who are interested in their own self-improvement*. These uncommon men possess influence by virtue of their excellence. Self-improvement is your and my most important duty. Once this is more broadly understood, the adverse tide may weaken and turn, and then our values need not go down the drain. Then our political and economic climate will improve.

As condensed from address before members of Edison Electric Institute.

ELDERLY HOUSING

(from page 32)

lenders in much the same fashion as the first checklist: to help older people stop and think before they buy in a location that will be unsuited to them in a short while. It has been compiled from a number of recent studies, including Robert L. Wilson's "Urban Living Qualities," (University of North Carolina), of environments preferred by older persons. A review of these will show that some are precisely those features (shopping within *walking* distance!) omitted from the post-war suburban developments either deliberately, because the residents preferred it that way, or because of financial considerations.

Lenders will want to continue to handle loan requests by older persons on an individual basis. It is hoped, however, that a consideration of the above factors will help them maintain during a new market of oldsters and youngsters the remarkably high calibre of loans granted in the immediate post-war period as well as to help the nation catch up with our job of adequately housing our older families.

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"Don't f

't forget – you've got a date"

"Miami Beach, of course, October 30 through November 2, for MBA's big annual convention and it's really going to be big in every way. Three thousand are coming and that's a record.

"It's a must for every mortgage banker, the one and only time during the year he can meet other mortgage bankers from everywhere, exchange views about the business and their mutual interests. It's the one time they can get right up to date nationally on the market, on lending conditions, terms and trends, on investor interest in what types of loans. Yes, the MBA's annual convention is as good an investment as a mortgage banker can make in his business during the entire year.

"There will be a program of four general business sessions—each one in the morning with afternoons open for contacts, and all the other things that make Miami Beach such an appealing and attractive place for a convention. And on the program you'll find some of the most prominent men from the fields of mortgage investment, real estate, finance and government. Each one will have something of importance to say, something that will be of help in guiding your own every-day operation.

"And before the general sessions, starting early in the morning, there will be four Workshop sessions which are just what the name implies—sessions devoted to the most basic matters affecting mortgage banking, what they are and what they mean. They will be about practical aspects of the business with the emphasis on how-to-do-it. You'll profit at these Workshop sessions—and, remember, you'll have two cracks at them because each one will be repeated the next day.

"The Convention, of course, will branch off into many directions, and in each one is a specific area of interest for a certain contingent of the varied MBA membership. The Farm Loan Committee has arranged an extensive tour of Florida farms. It will be by air-conditioned buses equipped with bars with luncheon and dinner on tour. Then MBA's Young Men's Activities Committee has arranged a luncheon session where the agenda is 'Unusual Commercial Loans'—certainly a timely and inviting subject for mortgage men seeking to broaden their horizon.

"Of course, it isn't all business. All sorts of events are being planned for making Convention attendance a well-rounded experience. YMAC will sponsor a golf tournament at the La Gorce Country Club. Eastern Air Lines is sponsoring a fishing tournament for MBA members and we'll see how well some of them do. For the ladies, there will be the greatest program of entertainment ever—in fact, all they can handle when added to the numerous other things there are to do and see. There's a big water show for them and a fashion show and luncheon. And to cap it all, there will be that one great event in the life of every MBA Convention—the Big Party, the occasion when everyone has the chance to see everyone else. This year it's the Pan American Carnival. It's dinner in the beautiful Americana and a great new revue, 'Crazy with the Heat,' starring Diosa Costello, who was Bloody Mary in South Pacific. There will be dancing to Bernie Cummins orchestra and Mandy Campo and his Latin Septette. Remember, the Carnival is a costume affair so bring along Latin American dress.

"Well, that's some of what to expect in Miami Beach and there will be a lot more. You have a date . . . we'll be expecting you . . ."

A department of MBA's Farm Loan Committee, Ewart W. Goodwin, San Diego, Chairman

Plain Talk by a Farm Loan Investor to Correspondents

And what follows is literally that—the words of a life company farm loan man talking not long ago to his correspondents. What he had to say reflects how investors regard the field of farm mortgages today with heavy emphasis on the fact that the lender cannot follow market value. "Market value of land—a market value, for the most part, as inconsistent with stabilized earnings as possible—is the root of most of our problems," he said. So, for a look at one segment of mortgage investment today, join the correspondents to hear an investor's point of view about farm loans.

FARM MORTGAGE problems—like so many problems—from year to year seem to be about the same "people" though frequently they wear "different clothes." Back in the middle 1930's we were talking about interest rates and amounts—are not these subjects still uppermost in our minds? Every time I have seen or talked with you this past year you have complained because someone would make a loan at an amount you couldn't recommend or at a rate unacceptable to your lender.

What can be done about it?

First, let's look at what we *cannot* or *should not* do and, perhaps by process of elimination, we may see more clearly what we *may do*.

I believe we will all agree that agricultural loans must be serviced and at last repaid from earnings; and that we must restrict our loans to the ability of the security to repay them. In reports and appraisals, the ability of a property to repay and service a debt is evidenced by two items: (1) actual operating statements, and (2) the stabilized net earnings. We all know how important these two items are. The farm or ranch loan you present must be supported adequately by both factual operating statements and by the stabilized net earnings of the appraiser. We cannot ignore or waive these requirements. That's one thing we *cannot do*—even though our competition may take a loan we'd like at an amount we cannot justify.

What else is there we cannot or should not do? We cannot and must not follow the phantom of market value. We are all witnesses at the scene and *know* what land is selling at on the open market—and you cannot but be impressed by current sales.

Examine the files on 2,000 farms one Company owned through foreclosure and you'd find as much and as sound evidence of market value backing up the loans which were foreclosed as for any loan you may have recommended. I don't believe the men who recommended those loans were any less intelligent or any less honest than you are. The amount they loaned was determined by market value. Beyond question, that method of lending was discredited. The one resolution most loan men agreed on in the '30s was: Never again would they be misled by market value.

Market value of land—a market value, for the most part, as inconsistent with stabilized earnings as possible—is the root of most of our problems. A farmer buys a property for $100,000. He expects to borrow $60,000 to assist in the purchase—he always has been able to borrow about 60 per cent of the cost. The stabilized value is $80,000 and you propose a loan of $48,000. What happens? Your competitor lends him $60,000 and you lose the business. So, you say, "They're crazy; they'll sure own lots of property." But after it happens enough times we all begin to wonder,

By **DENZIL C. WARDEN**

Assistant Vice President, Agricultural Loans
Connecticut Mutual Life Insurance Company

"*Who* is crazy?" We begin to doubt our appraisal system. You feel your lender refuses to face facts and the lender wonders why you don't persuade them of the facts.

When does market value become real for a lender? Only at foreclosure —or as a result of it. And in these *good* times our few experiences in testing market value through foreclosure have not been flattering to the market values reported when the loan was made. I've checked this fact with some of our competitors—and their experience has been the same: market value at foreclosure is a poor relation of market value at lending time.

I am convinced a sound lender does not have his eye on current market value. So, that's the second thing I feel we must *not* do.

What I have said regarding operating statements and stabilized net earnings and about market value have to do with the amounts to be loaned. The other vital problem confronting us is rate.

Rates have fallen. If our required rate is *too* far above that of our competitors, one of two things, or both, will certainly occur: Either we will get high risk business or we will go out of business. So we must acknowledge and face up to this problem too.

What can we do?

First, what about interest rates? I think there can be only one answer: We must stay in a competitive position if we are to do an agricultural loan business at all and if we are to receive applications on the better securities. We don't want the marginal security at any rate. Now what do I mean by competitive? Just this: If the prevailing basic rate of interest is 5½ per cent, as I feel it may be shortly in many areas—not all but in many—we must be at or near that rate. I do not believe we can successfully stay ¾ of 1 per cent or even ½ of 1 per cent above the prevailing basic rate and get the type of business we want. I think, for much of the business we do, we may successfully be ¼ of 1 per cent above the basic rate. That has been our experience the past 30 years. Besides, your talents, prestige and influence are not required to sell agricultural loans at the bottom rate. Anyone can do that.

At the same time I think we should stand ready to make loans on prime security at 5½ per cent—if that, in fact, becomes the basic rate.

One word of caution is simply to say that the bottom limit to which the interest charged by an insurance company may go is higher today than it was prior to 1958. Our best participation fee now goes to another member of our family—I refer to our Uncle who gets ¾ of 1 per cent on our invested principal to feed his ever-growing, hungrier family. Anything I may say about rates is subject to the effect taxes now have on our earnings.

I now come to what I consider the most important aspect of all. The amount we lend depends largely upon the capitalization of the stabilized net income—usually the net rental income. With the pressure on you and on us to lend larger amounts than our stabilized net will substantiate, how do we circumvent it? We don't. We cannot compromise the principal of being restricted to an appraised value derived from stabilized earnings. Our objective must be to improve our technique, make more thorough inspections, get all the information, establish the facts and back up our submissions with understandable operating statements.

Recently I was with a correspondent and two of his appraisers. They took me to see a piece of security behind a loan application for $200,000. The reason why I was being shown the property was, in their words, "Our economic appraisal, our stabilized net, will not support the $200,000 loan." Across the road from the 1,700 acres of the application we held a loan on 900 acres which had been renewed and increased last November. There was only a short history on the 1,700 acres because it had been put into cultivation within the past two years. We had five years history on the 900 acre tract. Operational figures on both tracts indicated a dependable cotton yield of over three bales per acre, a barley yield in excess of 80 bushels per acre, alfalfa about seven tons and potatoes of about 200 sacks.

In the stabilized appraisal, however, I noticed yields of about two bales of cotton, five tons of alfalfa, 60 bushels of barley, etc. When I asked, I was told those lower yields had been used because they were county average yields. The operational statement on 1,500 acres of the land backed up the higher yields and was entirely satisfactory as had been the operational statement on our loan across the road. Everything else about the application was not only satisfactory but very good.

The appraiser had been in the area not only recently but often over the past five years. We had experience and figures on the loan across the road and as recently as last November. I think the appraiser was misled by county averages and unrealistic with regard to the land under consideration. County averages are a guide, not a rule. Loans are made on specific farms. This type of problem can be solved and without "rigging" the appraisal. But to avoid criticism of tailoring the appraisal to fit a loan, *facts* must be determined, figures on yields must be backed up by history and sound judgment that such yields are likely to prevail during the life

(Continued on page 43)

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Other MBAs

Chicago MBA Successful in Legislative Drive

The Chicago MBA has for many years sponsored legislative programs designed to modernize the Illinois mortgage laws with two primary objectives in mind: (1) to reduce the cost of foreclosure; and (2) to shorten the period of redemption.

The sessions of the state's legislature occur bi-annually on odd years. Legislation passed in 1957* was the first important break-through. Supplementing this success in amending the Illinois mortgage laws, further revision occurred in the 1961 Session, and became law on August 7, 1961, when Governor Kerner signed the bills. The net effect is to make Illinois more attractive from a mortgage investment standpoint.

This legislation accomplishes three principal aims:

▶ *Shortening the redemption period.* Under prior law, with certain exceptions, the 12 months redemption period did not begin to run until the date of the foreclosure sale. Thus, the length of the overall period between the time of filing the complaint and issuance of a deed was directly dependent upon the length of time required to bring a foreclosure suit to the point of sale. The experience of foreclosure sales indicates that the average period between the filing of suit and the date of the sale was five months, thus reflecting an average total of 17 months.

Under the new law, the 12 months redemption period starts to run before the sale, namely, when the owner is served with summons. It assures a 12 months period of redemption from that date which would be further increased in the event the judicial sale occurs six months or more after service of summons; thus, for example, if the sale occurs in the seventh month following service of summons upon the owner, the redemption period would expire in the thirteenth month, etc.

▶ *Simplification of Foreclosure Proceedings:* (a) *Elimination of parties defendant.* Under prior law the owners of all interests in the property had

Gov. Otto Kerner of Illinois, center, signs bills modernizing the Illinois laws. Left, Morris Levinkind, chairman of CMBA legislative committee, and, right, Newton S. Noble, Jr., Chicago MBA president.

to be sought out and served with a summons. If they could not be personally served, they could be brought in by publication. To learn the identity of necessary parties required inquiry in the case of persons whose names did not appear of record and to publish them required that diligent effort first be made to serve them personally. Persons in this category included judgment creditors, frequently with no means of the mortgagee's knowing whether the judgments were actually against the owner of the property or were against persons of similar name; holders of notes secured by junior mortgages in the form of trust deeds which did not disclose the ownership of the notes; spouses (including divorced spouses) of record owners; beneficiaries of trust with only the name of the trustee being disclosed of record.

The new legislation has simplified

(Continued next page)

**Elimination of Foreclosure Sale and Deficiency Judgment by Agreement in Court.* In any foreclosure proceeding, by agreement of the owner of the property and holder of the mortgage, made in court by their attorneys, the necessity of a foreclosure sale can be entirely eliminated. Under this procedure the court enters a decree which immediately vests the mortgagee with title to the property, without the necessity of a foreclosure sale and, at the same time, precludes any personal recovery from the mortgagor by way of a deficiency judgment.

It has, of course always been possible for an owner and mortgagee to arrange by contract after a mortgage has gone into default for the owner to convey title to the mortgagee in exchange for a cancellation of the mortgage. However, a mortgagee could never be vested with a clear title if there were junior mortgages or judgment liens against the property without also entering into voluntary arrangements with the holders of junior liens. This had the practical effect of either preventing voluntary settlements where there were junior liens or permitting the holders of junior liens to capitalize on their nuisance value.

Under the new procedure there is no necessity of obtaining an agreement from holders of junior liens where the agreement between the owner and mortgagee is made in court. Their protection lies in the provision which will permit them to redeem during a period of three months following the entry of the decree. During this same three month period, the owners and judgment creditors may likewise redeem.

Washington State Correspondents Name Garner

The Washington State Mortgage Correspondents' Association, only one of its kind in the country, elected Robert G. Garner, president of Great Western Mortgage Co., Inc., Yakima, as president for the coming year.

R. G. Garner

C. A. Sandquist

Carl A. Sandquist of Coast Mortgage and Investment Company, Seattle, was elected vice president; Stephen C. Saunders of Tyee Mortgage Company, Everett, was elected secretary and D. A. Belfoy, Ward Smith, Inc., Tacoma, was elected Treasurer.

The executive board elected includes V. E. Roberts, Carroll Mortgage Company, Seattle; A. B. Lind, Securities - Intermountain, Inc., Spokane; Harry Mangan, Paxton-Kent Company, Walla Walla; Howard F. Whims, Securities Mortgage Company, Seattle; and Herbert A. Lan-

D. A. Belfoy

S. C. Saunders

deen, Continental, Inc., Seattle.

The Correspondents' Association is the only state-wide group of mortgage bankers servicing mortgages for investors and all are members of MBA. Members service between $900,000,-000 and a billion dollars in loans.

At their meeting members went on record as opposed to FHA fixed interest rates.

this situation in the following respects:

(1) Persons in these categories whose names do not appear of record need not be joined by name or served with summons, thereby reducing court costs for service of summons.

(2) It is no longer requisite for publication against such persons that any diligence be exercised in trying to seek them out. This reduces the work and responsibility of the lawyer handling the foreclosure and permits a publication against such persons immediately after the filing of the suit instead of having to await the outcome of efforts to locate and serve them with summons. This will tend to reduce attorneys' fees.

(b) *Short Form Foreclosure Complaint.* Under prior law, it was necessary for the foreclosure complaint to contain detailed factual allegations regarding the mortgage, the defaults and interests of various parties and to include a lengthy prayer for relief. Most of these allegations have been stereotyped. Under the new statute a short form will suffice, thus shortening and simplifying the form.

▶ *Placing of Mortgagee in Possession:* Under prior law there was no effectual way to enforce an assignment of rents or a provision in the mortgage entitling the mortgagee to take possession. In appropriate cases, the mortgagee could obtain the entry of an order appointing a receiver. In some cases, this could be done before sale, but in most cases only after sale and deficiency. Under the new statute the court can place the mortgagee (or the assignee under an assignment of rents) in possession, instead of appointing a receiver, thereby saving expense and permitting the management of the property to be under the direct control of the mortgagee.

While the new legislation is not a cure-all, it is a significant step forward in eliminating some of the inequities in the Illinois mortgage laws and is intended to protect borrowers from abuse and enhances redemption rights. The shortening of the redemption period will vary with individual cases. The simplification of foreclosure proceedings will result in savings in foreclosure costs.

Thus, through Chicago MBA's efforts, together with assistance from other related organizations, a giant stride has been made in modernizing the State's mortgage and foreclosure laws and making them far more attractive for outside investors.

ON FARM LOANS

(From page 41)

of the loan.

In another direction, I think we may be more realistic without principal compromise. I refer to our stabilized prices. I can hear some say, "It's about time." Perhaps, from your point of view, but from ours. It's not that easy.

In the past—for 25 years now—we have refused to be influenced by support prices. It is very apparent they *have* influence on any basis for the computation of stabilized prices, whether we acknowledge it or not. We have persisted in the use of stabilized commodity prices considerably below the historical average market price for recent years. I know stabilized figures used by many of our competitors are closer to average market price than those we use. That does not make a higher figure right, but it might indicate we should review our stabilized price schedule. Nor do I mean to suggest we should move all the way to the average price, but I feel we should give careful study to this question; then if we feel justified in doing so, revise our schedule. As many know, settling on the "correct" commodity price as a stabilized price is not easy. Many hours and days have gone into those computations in the past. While we all know $1 of increased net income accounts for about $20 of increased appraised value, our purpose must be to establish a right commodity price, not necessarily a higher one. We plan to devote some time and effort to this study. Should we become convinced higher stabilized prices are justifiable —and I am inclined to believe that we may—they would give honest support for a more satisfactory appraised value.

The good health of our business—yours and ours—has always been directly related to your industry, intelligence and integrity but I believe it has not been so critical in the past 15 years as it is now and will be for some time. You don't have the latitude for mistakes nor the redemptive margin of the fast-rising market you've benefited from the past decade and a half. Mistakes in appraising can be disastrous and are always expensive.

There is more to it than the effect it has on the business, yours and ours. Bad appraising is inimical to a sound land market. It feeds the fire of inflation; it can cause a farmer or ranchman to lose his land. As an appraiser, your responsibility to yourself and to

(Continued on page 48)

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1961 School of MORTGAGE BANKING at STANFORD

Attendance at the 1961 School of Mortgage Banking set an all-time high record of nearly 500 registrations, with the second section of the School at Stanford University in Stanford, California enrolling 140 students. Course I at Stanford, July 23 through July 29, had an enrollment of 80, with Course II an enrollment of 60. This enrollment, with the 356 recorded at Northwestern University in

The 1961 classes at Stanford, above Course I and, below, Course II.

Chicago in June, made a total student registration of 496, which compares with 485 for the 1960 session. The 124 graduates completing Course III at Northwestern this year brought total graduates from the School of Mortgage Banking to 645.

Viewed statistically, the School of Mortgage Banking registrations, by position of student, reflects the wide range of managerial responsibility involved. Students this year ranged all the way from presidents of companies (a total of six), down to mere trainees (eight). In between were executive vice president of firms, vice presidents, mortgage officers, investment underwriters and just about every classification one finds in the mortgage industry.

Where do the School's students come from? This year 319 of them came from mortgage companies, 57 from insurance companies, 21 from savings banks, 51 from commercial banks and 42 from title and trust companies.

Left, at the warm-up dinner, Dr. Herbert E. Dougall, professor of finance, Stanford graduate school of business; Willis R. Bryant, president, Bryant-Johnson Mortgage Company, San Francisco; Lewis O. Kerwood, MBA director of education and research; MBA President Robert Tharpe; Associate Dean Charles A. Anderson of the graduate school; and Dr. Theodore J. Kreps, professor of business economics. Right, Dean Anderson with MBA Vice President Carton S. Stallard.

Above, left, MBA President Tharpe with Dean Anderson and right, George M. Youngs, manager, California-Western States Life Insurance Company, Portland, Oregon; Donald F. Plympton, vice president, Oregon Mutual Savings Bank, Portland; William A. Smith, assistant vice president, Coast Mortgage & Investment Company, Seattle and William Cosgrove, assistant vice president, Coast Mortgage & Investment Company, Seattle.

Below, left, some of the Course II students in an informal get-together, left to right, Richard J. Willsey, Sherwood & Roberts, Inc., Pasco, Washington; Sykes Mitchell, John Davis & Co., Seattle; Neil R. Goff, Sherwood & Roberts, Inc., Pendleton, Oregon; Henry P. Struck, Sherwood & Roberts, Inc., Kennewick, Washington and W. Dean Goodman, Moore Mortgage Co., Denver. Lower, right, warm-up for Course I students.

Great Achievement? Or Unsound Venture?

Just how can the new housing legislation be judged?

- *Someone somewhere has said just about everything that could be said about the 1961 housing bill. It's costly, complicated; its purpose was to provide something for everybody. It's political to the nth degree. It's inflationary, sets all sort of dangerous precedents and it's unworkable in many, many aspects.*
- *Others have said that it represents a tremendous accomplishment in providing the tools for government to help in building the kind of economy and society the people need and want, that it will be of the greatest benefit in helping solve the pressing problems of Urban America.*
- *Whatever judgment proves to be correct, the fact is that the nation has this new housing legislation and it will govern many of our housing and housing financing activities for a long time to come. It's full of new ideas, innovations of incalculable import. It opens new vistas, creates new opportunities.*
- *What follows is a summary of how one man sizes up the new housing legislation and he is the man who, as much as any other, will be directly involved in, and responsible for, its operation. He is FHA Commissioner Neal J. Hardy who set forth his views at a series of conferences around the country sponsored by the Advance Mortgage Corporation.*

The new housing bill is one of the most realistic and comprehensive ever passed by Congress. It provides a truly effective vehicle for arriving at the goals toward which all are driving—to renew our cities and assure sound growth of our rapidly expanding metropolitan areas; to provide decent housing for all our people; and to encourage a prosperous and efficient construction industry as an essential component of general economic prosperity and growth—and to do all this on an economically sound basis.

The new law gives FHA a whole new set of tools to accomplish these goals. FHA now can and *will* expand its services to the entire housing market and will take a far more active and aggressive part in urban renewal and redevelopment than it has been able to in the past.

The vast volume of home building activity during the past decade has been centered in suburbia. As a result, some areas of the housing market have been almost completely bypassed. These are the areas on which we must concentrate our combined efforts now and in the years ahead if the construction industry is to remain healthy and our communities are to continue to thrive.

This means we will have to devote more thought to where homes should be built and for whom they should be designed. It calls for careful planning by all in the housing field so that further expansion of our cities and towns can take place in an orderly fashion—this planning is important economically as well as for humanistic and esthetic reasons.

A great deal of the building that will be done for a long time to come will be tied in with urban renewal. The future of many builders lies in the cities where there is a crying need for rehabilitation of existing salvable homes and for constructon of new housing suitable for different groups of people in different income levels. Astute builders who know how to work with public agencies can boost their own business by participating in both the rehabilitation and new construction phase of redevelopment work and at the same time gain widespread respect for the service they render to communities. Astute lenders working with the housing agencies and the building industries will reap the same rewards.

The present situation — with no drastic housing shortage, such as we had in the wake of depression and war, and with supply and demand in the general housing market at the balance point expected to last for several years—does not mean that home building or the mortgage business will be at a standstill. Far from it! The Bureau of Census reports that construction activity made a better-than-usual showing in June, with expenditures increasing by 9 per cent compared with a normal seasonal increase of 7 per cent, and that gains occurred in both private and public construction.

The current situation merely gives us a breathing spell after the pressure of suburban building, so that we can turn our attention to other areas where there is a very real need for a great many homes.

Through provisions in the new Housing Act., FHA insurance has been broadened to make adequate financing available to preserve existing housing and at the same time stimulate an active construction business.

For 27 years FHA has been collaborating—not competing—with private enterprise and private lending institutions to make better housing available to more American families. It has brought home ownership within the reach of a great many people who could not otherwise afford it. It has focused public attention on

(Continued on page 48, column 1)

People : Places : Events

Stanley Le Bon was named treasurer of Metropolitan Mortgage Corporation in Los Angeles. He is a past chairman of the servicing committees of both Southern California MBA and California MBA and has been a lecturer at the MBA School of Mortgage Banking for the past two years . . . **Leroy G. Snyder** has been named vice president and title officer of Berks Title Insurance Company in Reading, Pennsylvania and **Norman R. Field** has been named senior title officer. Mr. Snyder assumes the responsibilities of the late **James D. Chatterton . . . Joseph V. McCabe, Jr.,** for the past twenty years associated with various mortgage and title companies in the New York area, has joined Bankers Mortgage Company of California as a vice president in charge of the company's newly-opened New York office.

A Conference of Health, Welfare and Pension plans will open in Philadelphia October 2 and one of the principal addresses regarding mortgages for this type of investment will be made by MBA Board Member **H. Bruce Thompson,** Chairman of Colonial Mortgage Service Company, Upper Darby, Pennsylvania. He will also act as a moderator of an investment panel considering mortgages for pension funds and MBA members with him will be MBA Vice President **Carton S. Stallard,** president of Jersey Mortgage Company, Elizabeth, N. J.; **Brown L. Whatley,** chairman, Stockton, Whatley, Davin & Company, Jacksonville, Florida; **Ross Fox,** vice president, T. J. Bettes Company, Houston; **W. W. Dwire,** vice president, Citizens Mortgage Corporation, Detroit and **Oliver M. Walker,** president, Walker & Dunlop, Inc., Washington, D. C.

Roy A. Holmes, real estate officer of Chicago Title and Trust Company, retired from the Company after 31 years of service. **John C. Blackmore,** assistant real estate officer, succeeds him.

John O. Chiles, president of Adams-Cates Company, Atlanta, was elected a director of the Trust Company of Georgia. He is past president of the Central Atlanta Development Association and past chairman of the Georgia Real Estate Commission. He now serves as chairman of the Atlanta Housing Authority. Mr. Chiles has been prominent in MBA activities.

Mrs. Mary Cleverley, until recently assistant commissioner for housing for the elderly in the Public Housing Administration, has left government service and will now be available as a specialist and consultant in the field of elderly housing. Mrs. Cleverley is one of the foremost authorities in this field and has a broad and comprehensive background of experience.

Kennedy Mortgage Company, Cincinnati, has been purchased by Thomas & Hill, Inc., Charleston, West Virginia, **Philip H. Hill,** president, announced. The Kennedy Company, formerly Kennedy & Stevenson, has been in business in Cincinnati for more than 20 years. **J. William Hubbard, Jr.,** vice president of Thomas & Hill, will move to Cincinnati from Charleston, and become manager of the firm's Cincinnati office.

Securities Mortgage Company of Seattle elected a new slate of officers: President, **Sheffield Phelps;** vice president and secretary, **William R. Jennings;** vice president and treasurer, **James T. Hillman.** Mr. Phelps, who was formerly president of the Seattle MBA, is now vice chairman of MBA's YMAC Committee.

Seattle Mortgage Company named a new slate of officers: **Ben J. Smith, Sr.,** chairman; **Ben J. Smith, Jr.,** president; **Robert E. Story,** vice president and **John M. Teutsch, Jr.,** assistant secretary.

Clarence M. MacKinnon has been named vice president of James T. Barnes & Co. in Detroit to head the firm's commercial loan department. MacKinnon was formerly with John Hancock Mutual Life Insurance Company in Boston and more recently with H. G. Woodruff, Inc.

Donald E. Meads, who was formerly vice president and secretary of the finance committee of the board of New York Life Insurance Company, has joined Investors Diversified Services to head the investment activities of that Company and the Investors Group.

Obituaries

Conrad J. Sutherland, vice president of Lowell, Smith & Evers, Inc. of New York and California, died at his home in New York. He was general counsel of the RFC in New York during World War II and later in charge of the New York office of FNMA. At one time he was vice president and counsel of the firm of Pringle-Hurd & Co. and was associated with Lawyers Mortgage and Title Company.

William H. Crane, vice president and secretary-treasurer of American Mortgage Company, Houston, and a well known mortgage banker for more than twenty years, died in his home city. He was a former director of the Houston and Texas MBAs and was active in MBA committees for a number of years. He began his career with General Motors Acceptance Corporation, later was with Investors Syndicate and was vice president of Realty Mortgage Company before joining American six years ago.

NEW HOUSING BILL

(from page 46)

housing conditions. It has helped to improve housing standards throughout the nation.

The new Act broadens our role in the following ways:

▶ *First,* the provision for 20-year rehabilitation loans of up to $10,000 per family unit, with maximum interest rate of 6 per cent, on homes and rental housing. These loans will supplement the smaller, shorter-term property improvement loans which FHA will continue to insure under Title I. They will furnish a sorely needed way to finance the upgrading and conservation of homes and neighborhoods. We anticipate that this provision will stimulate a multibillion dollar industry.

▶ *Second,* the provision for 35 (or in some instances 40) year mortgages with 3 per cent minimum down payment on homes for families of moderate income. We will continue to insure 40-year no-downpayment loans on relocation homes for displaced persons. This new provision, however, will bring into the housing market a great many families who could not afford to buy homes under less liberal provisions.

▶ *Third,* the provision for 40-year mortgages with below-market rates on rental and cooperative housing for families of lower income who cannot qualify for public housing yet cannot afford to buy or rent adequate homes.

▶ *Fourth,* the provision for mortgages on condominium housing. This will enable individuals, in those States which permit this form of ownership, to buy a unit in a rental housing project financed through FHA's multifamily housing programs and to own an individual interest in all common areas and facilities serving the project.

▶ *Fifth,* the provision for mortgages on experimental housing—housing in which ideas can be put into action by testing new or untried home building designs, products and techniques in actual construction in different parts of the country and under varied conditions. Findings of all tests made in this way will be available to the entire building industry.

FNMA will participate in the programs for displaced persons, low-interest rate housing, and experimental housing through its special assistance fund.

These provisions represent new fields of operation for FHA. Another provision in the Act pertains to FHA's regular Section 203 home mortgage insurance program. It eases the down payment schedule; increases the maximum mortgage maturity to 35 years for new homes, retaining the 30-year maximum for existing homes; and raises the maximum mortgage amount to $25,000 for single-family homes and to $27,500 for 2-family homes.

The new Housing Act provides stimulation for a comprehensive building program to meet the needs of all areas of the housing market.

We have already paved the way for a smooth-running operation of the various programs we will administer under the new law. We are shifting our emphasis toward meeting total housing needs—to make FHA programs effective in reaching *all* sectors of the housing market. We have realigned our organization and simplified many of our procedures to attain greater flexibility and a higher degree of efficiency in our operations. We are prepared to take calculated risks that may be involved in the expansion and liberalization of FHA programs.

FHA is geared to assume the important role it will have in providing more and better housing for all the people of this nation. Our budget situation is improved so that we can better staff our field offices, and our dollar limitation on insurance has been removed.

We believe that builders, lenders and others will cooperate in new FHA programs just as they are doing in present ones. With that kind of cooperation, home building and home financing will go forward at a good pace—and the time will draw rapidly nearer when decent homes are available to all Americans.

FARM LOANS

(from page 43)

us is tremendous, but to the general public it is incalculable. Take nothing for granted, even your own experience and judgment should be subject to your own review and proving. Thoroughly inspect each security offered; regard each offering as new territory where you must get all pertinent facts, then apply your conscientious best judgment. In the case of those who are presently doing so much of our appraising, your future well-being depends on how thoroughly and honestly you do the work of today. While today you appraise as an employee, one day you may service those loans with the responsibility of proprietorship. Not only are you determining the character and reputation of your firm but, to a large degree, you are making or breaking the agricultural loan department of this Company.

We cannot escape or overcome our troubles by being less than conscientious about the statement of stabilized earnings or about requiring factual operating statements. We must not permit market value to determine the amount of our loan. Failure to observe these precautions means almost certain disaster. Rather, let us industriously learn the truth about the security we inspect and report all the facts. If you as appraisers will perform those functions, we will try to provide loan funds.

PERSONNEL
AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

OPPORTUNITY WANTED: Development of commercial and residential loans, mortgage man, age 30, BS commerce and business, graduate School of Mortgage Banking, experience all phases servicing, loan presentations, investor contact, currently active real estate brokerage. Write Box 747.

MORTGAGE EXECUTIVE AVAILABLE

Heavy experience in Servicing and Loan Administration—VA, FHA and Conventional Loans; Production and Appraising. Write Box 748.

Leading Beverly Hills, California, mortgage loan firm offers excellent opportunity for loan executive, experienced and capable of directing FHA lending program. Age 35-50. Salary open. Replies in confidence. Send résumé and picture to Box 749.

EXPERIENCED APPRAISER and mortgage man wanted by leading Midwestern mortgage banking firm. New position as aide to senior vice president. Qualified man can command five-figure salary to start. Must have experience in processing and submitting applications involving income properties. Unexcelled opportunity in live, progressive multi-office company with over 100 millions in mortgage servicing accounts. In first letter give complete résumé of experience, education, present employment status, availability. All replies will be answered and held strictly confidential. Address Box 743.

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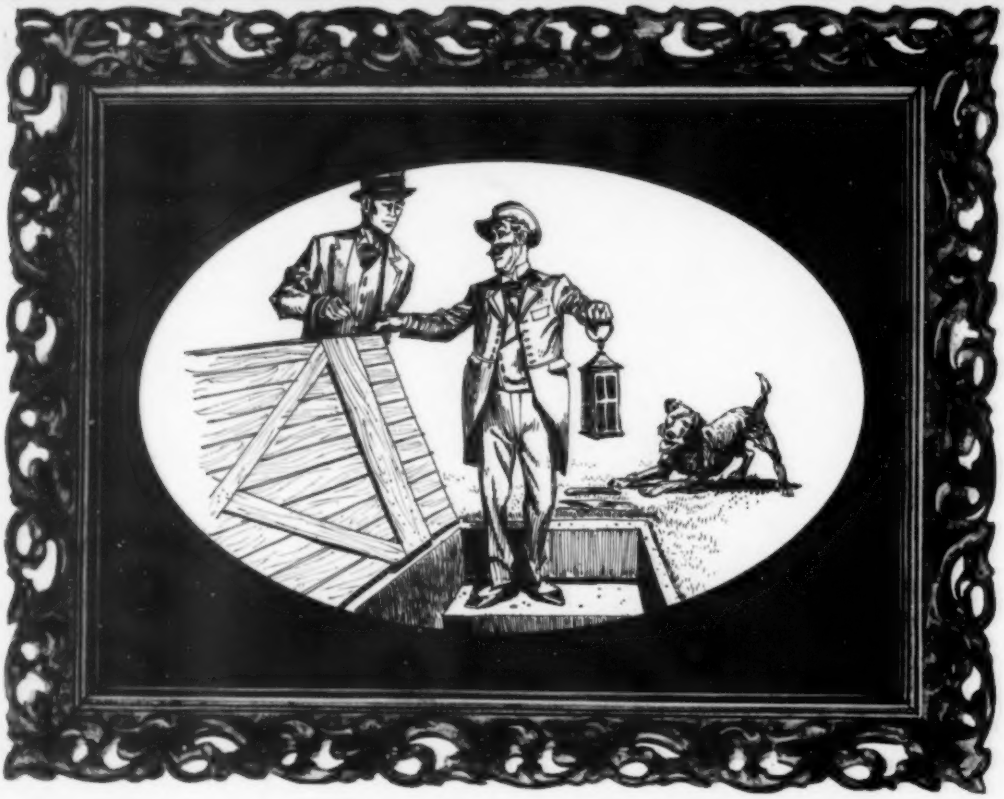

When a dry cellar was a real estate bargain . . .

In 1861, prospective buyers read property descriptions like the following in a local newspaper:

"A most desirable lot, enclosed by a neat fence, has a neat Eli with two rooms and a dry cellar. A true bargain is offered. Title guaranteed."

1861 was also the founding year for one of the firms which later became Kansas City Title Insurance Company. Today it offers bankers across the nation *guaranteed* protection against real estate title loss due to prior title defects—thus satisfying investors, reducing title tie-ups, and helping bring mortgage transactions to speedier and more profitable conclusions.

Kansas City Title Insurance Company has branch offices and agencies to serve you in 26 states and the District of Columbia.

In addition, we can arrange to insure a title for you in any other state or U. S. Territory.

Let us put a century of title experience to work for you. Call your nearest Kansas City Title agent. Directory of agencies furnished upon request.

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Serving Owners of Real Property Since 1861

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925 Walnut HArrison 1-5040 Kansas City 6, Missouri

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- Baltimore, Maryland: 210 North Calvert Street
- Little Rock, Arkansas: 214 Louisiana Street
- Nashville, Tennessee: SW Corner, 3rd and Union Street
- Jackson, Mississippi: 518 East Capitol Street
- Denver, Colorado: 1845 Sherman Street

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